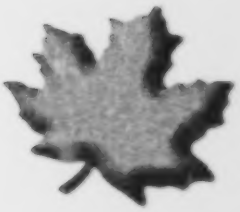

Report on Operations Under the Bretton Woods and Related Agreements Act

2003

Canada

Report on Operations Under the Bretton Woods and Related Agreements Act 2003

Prepared by:
International Trade and Finance Branch
March 2004

Department of Finance Canada | Ministère des Finances Canada

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Also available on the Internet at
www.fin.gc.ca

Cette publication est également disponible en français.

Cat. No.: F1-28/2003E
ISBN 0-662-36213-6

Table of Contents

Introduction 5

International Monetary Fund 7
Overview 7
Benefits of Membership 7
Canada's Priorities at the IMF 9
Economic and Financial Developments in Emerging Markets 10
Efforts to Promote International Financial Stability 12
Strengthening Surveillance and Crisis Prevention 14
Enhancing Crisis Resolution 18
Improving IMF Lending 21
Safeguarding the IMF's Cooperative Nature 22
Strengthening Support for Low-Income Countries 24
Lending Developments in 2003 24
Managing Canada's Interests at the IMF 25
Canada's Office at the IMF 26
Canada's Financial Participation 27
Challenges Ahead 29

World Bank 30
Benefits of Membership to Canada 30
Overview of Operations in 2003 31
Strengthening the World Bank's Poverty Reduction Focus 32
The IDA13 Replenishment—Enhancing Support for Country Ownership 38
Canada's Priorities at the World Bank 41
The World Bank's Business Plan and Administrative Budget 52
FY 2003 IBRD Financial Results 52
Managing Canada's Interests at the World Bank 54
International Finance Corporation 57
Multilateral Investment Guarantee Agency 58
Future Challenges 59

Joint Issues 60
Overview 60
Enhancing the Voice and Participation of Developing Countries in the Bretton Woods Institutions 60
Strengthening Financial Sectors 61
Multilateral Debt Relief 63

Annexes

1. Active IMF Lending Arrangements—As of December 31, 2003 67
2. IBRD Loans and IDA Credits—Fiscal Year 2003 (July 1, 2002–June 30, 2003) 69
3. IBRD Loans and IDA Credits to Developing Countries 70
4. Disbursements by IBRD and IDA Borrowers: Goods and Services From Canada—To June 30, 2003 71
5. IBRD Loans and IDA Cumulative Lending by Country—As of June 30, 2003 73
6. Projects Approved for IBRD and IDA Assistance in Fiscal Year 2003, by Country (July 1, 2002–June 30, 2003) 77
7. 2003 Communiqués of the International Monetary and Financial Committee of the Board of Governors of the IMF 80
8. 2003 Communiqués of the Development Committee of the Boards of Governors of the World Bank and the IMF 90

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INTRODUCTION

The Bretton Woods Institutions—the International Monetary Fund (the IMF or the Fund) and the World Bank (the Bank)[1]—were founded at a conference held at Bretton Woods, New Hampshire, in 1944. The IMF was established to promote the smooth functioning of the international monetary system, encourage international trade and support high rates of sustainable economic growth. To achieve these goals, it exercises a surveillance function by monitoring members' economic policies, provides policy advice and technical assistance, and extends short- and medium-term financial assistance to countries faced with balance of payments difficulties.

The World Bank's goal is to reduce poverty by raising living standards and promoting sustainable development in developing countries. As the premier development institution in the world, it provides a wide range of assistance to developing countries, including economic policy advice and lending and technical assistance for projects that promote sustainable growth and an improved quality of life.

Canada is the eighth largest member of the IMF (as measured by quotas), tied with China, after the six other Group of Seven (G-7) countries and Saudi Arabia. Along with China, Italy, Russia, India and Saudi Arabia, Canada is the sixth largest shareholder of the World Bank. On the Executive Boards of the two institutions, Canada represents Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. On the Bank's Executive Board, Canada also represents Guyana. Canada's formal participation in the two institutions is authorized under the Bretton Woods and Related Agreements Act. Section 13 of the Act states that:

> The Minister of Finance shall cause to be laid before Parliament, on or before March 31 next following the end of each calendar year or, if Parliament is not then sitting, on any of the first thirty days next thereafter that either House of Parliament is sitting, a report containing a general summary of operations under this Act and details of all those operations that directly affect Canada, including the resources and lending of the World Bank Group, the funds subscribed or contributed by Canada, borrowings in Canada and procurement of Canadian goods and services.

This report has been prepared in accordance with this provision. The sections that follow review the activities and operations of first the IMF and then the Bank for the year 2003. A final section deals with issues common to both institutions. The annexes contain detailed numerical summaries of

[1] In this document "World Bank" and "Bank" refer to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). "World Bank Group" and "Bank Group" refer to the broader group of World Bank institutions that includes the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). For more details see the box on page 32.

the year's activities. The 2003 spring and fall communiqués of the International Monetary and Financial Committee (IMFC) of the Board of Governors of the IMF and the Development Committee (DC) of the Boards of Governors of the World Bank and IMF are also appended for information. The IMFC and DC are the key policy committees of the IMF and Word Bank Boards of Governors, and their communiqués steer the policy direction of the two institutions.

Roles of the International Monetary Fund and World Bank

International Monetary Fund

- Oversees the international monetary system and promotes international monetary cooperation.
- Promotes orderly exchange rate relations among member countries.
- Provides short- to medium-term financial support to members facing balance of payments difficulties.
- Provides support for poverty reduction through promotion of economic stability.
- Draws its financial resources primarily from the quota subscriptions of its members.

World Bank

- Provides support for poverty reduction in developing countries through investments in such areas as health and education.
- Promotes economic development and structural reform in developing countries.
- Assists developing countries through long-term financing of development projects and programs.
- Provides special financial assistance to the poorest developing countries through the International Development Association.
- Stimulates private enterprise development and private investment in developing countries primarily through its affiliates, the International Finance Corporation and the Multilateral Investment Guarantee Agency.
- Enhances the flow of capital and technology for productive purposes to developing countries by providing investment insurance against non-commercial risks for investments in developing countries.
- Secures most of its financial resources by borrowing on international capital markets.

INTERNATIONAL MONETARY FUND

Overview

As a major trading nation, Canada benefits from a strong international monetary system that facilitates the free movement of goods, services and capital. The IMF promotes international financial stability and economic growth through the provision of policy advice and financial and technical assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

Benefits of Membership

IMF membership provides a number of specific benefits:

- The Minister of Finance is a Governor of the Fund and elects an Executive Director to its 24-member Executive Board. This representation allows Canada to have high-level influence on decisions taken by the IMF on specific country assistance programs and major policy issues affecting the world monetary and financial system.
- The IMF, through its regular surveillance of the Canadian economy, provides Canada with an independent source of policy advice on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance, other government agencies and the Bank of Canada.
- The efforts of the IMF to make sure that countries abide by their obligations, including those under Fund-supported programs, help ensure that they repay Canadian bilateral loans and use our bilateral development assistance effectively.
- Canada earns a market rate of return on its financial position in the IMF.
- Were Canada to experience severe balance of payments difficulties, it would have the right to draw on IMF financial assistance.

How the IMF Works

The IMF works like a credit union. It has a large pool of liquid assets, or resources, comprising convertible national currencies, special drawing rights,[1] and other widely used international currencies provided by its members, which it makes available to help members finance temporary balance of payments problems.

Members provide resources to the IMF in amounts determined by "quotas" reflecting each country's relative importance in the world economy. A country's quota in turn helps determine the amount of Fund resources that it may use should it experience economic difficulties. At the end of 2003 the total quota for the Fund's 184 members was SDR 212.7 billion.

A member country uses the general resources of the IMF by purchasing (drawing) other members' currencies with an equivalent amount of its own currency. A member repurchases (repays) its own currency from the IMF with other members' currencies over a specified period of time, with interest. In this way, a member country receives credit from other members.

Members seeking financial assistance can draw on four "credit tranches," each amounting to 25 per cent of their quota. For access to resources beyond the first credit tranche, the member and the IMF have to reach an agreement on a set of economic measures and reforms aimed at removing the source of the country's balance of payments difficulty and creating the conditions necessary for sustainable non-inflationary growth.

Depending on the prospective duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts one to two years, or an Extended Fund Facility, which generally runs for three years. Short-term financing for balance of payments difficulties related to crises of market confidence is also available through the Supplemental Reserve Facility, created in December 1997.

Members can also use financial facilities created for specific purposes, including the Compensatory Financing Facility, which provides financial support to members experiencing temporary export shortfalls or other unforeseen adverse external shocks.

Concessional financing to low-income developing countries under the Poverty Reduction and Growth Facility (formerly the Enhanced Structural Adjustment Facility) is made available in the form of low-interest loans with extended maturity periods.

[1] The special drawing right (SDR) is an international reserve asset created by the IMF and allocated periodically to its members as a supplement to their foreign currency and gold reserves. The SDR is also the standard unit of account for the IMF's operations. It represents a weighted basket of four major currencies: the US dollar, the Japanese yen, the pound sterling and the euro. At the end of 2003 the exchange rate was SDR 1 = C$1.92.

Canada's Priorities at the IMF

Global Economic and Financial Stability

Recent emerging market financial crises have underscored the need to strengthen the global financial architecture—the global institutions and rules that govern international economic and financial cooperation. Motivated by the increased role of private capital flows in the global economy and the lessons drawn from recent financial crises, the IMF has been engaged over the past several years in a process of reform. The reforms underway are aimed at making the Fund more effective in promoting greater financial stability and helping countries benefit from the opportunities of global economic integration.

In cooperation with its international partners, Canada has played an active role in identifying areas where reforms are required and taking steps to implement those reforms. To enhance the Fund's effectiveness, reforms have focused on six main areas:

- improving transparency, accountability and openness;
- strengthening surveillance and crisis prevention;
- enhancing crisis resolution;
- improving the effectiveness of IMF lending;
- safeguarding the IMF's cooperative nature; and
- strengthening support for low-income countries.

At its 2003 spring and fall meetings, the International Monetary and Financial Committee of the IMF welcomed the progress achieved and supported continued work by the Fund in these areas.

Looking forward, a key objective for Canada is to ensure that the Fund has the tools to promote international financial stability. To meet this objective, Canada supports:

- strengthening surveillance to prevent crises through greater attention to financial vulnerabilities and increased transparency of information;
- improving the institutional capacity of countries to support strong macroeconomic frameworks and more resilient financial systems;
- enhancing crisis resolution;
- improving IMF lending to promote economic reform; and
- strengthening governance and accountability of the IMF and its members.

Canada continues to place a high priority on strengthening support for low-income countries. The IMF plays a crucial role in supporting macroeconomic stability as a key tool for poverty reduction in the poorest countries and is integrating its efforts with those of the World Bank.

The Fund's involvement in the key areas outlined above, and Canada's priorities related to these efforts, are described in more detail in the section entitled "Efforts to Promote International Financial Stability," which follows the next section.

Economic and Financial Developments in Emerging Markets

Financial conditions in most emerging markets improved in 2003. JP Morgan's Emerging Market Bond Index, which measures the yield spread between emerging market debt and comparable US Treasuries, narrowed steadily over the year, reaching near historical lows. This significantly reduced external debt service costs for many emerging market economies and enabled some to regain access to external sources of finance. Nevertheless, the IMF has expressed concern over the sharp increase in public debt in recent years across a broad range of emerging market economies. A sudden reversal of private capital flows to some emerging market countries could give rise to liquidity or solvency problems.

Financial developments in **Brazil**, the IMF's largest borrower with 29 per cent of credit outstanding, were favourable in 2003. Sound monetary and fiscal policies have supported a stable macroeconomic environment. The primary surplus reached 4.25 per cent of gross domestic product (GDP), putting the public debt on a more sustainable path, while monetary policy was successful in controlling inflation. Despite its strong performance, Brazil's large external financing requirements left it vulnerable to a reversal in market confidence, and in December 2003 the IMF approved a 15-month extension and a US$6.7-billion augmentation to Brazil's September 2002 Stand-By Arrangement. The Brazilian authorities have indicated that they do not intend to draw on the additional funds unless needed for balance of payments purposes. Under the new agreement, the IMF's exposure to Brazil is expected to decline substantially over time.

Economic and financial developments in **Turkey**, the IMF's second largest borrower with 25 per cent of credit outstanding, were encouraging in 2003. Real gross national product (GNP) growth is estimated to have reached 5.3 per cent in 2003, above the 5.0-per-cent target in its IMF program. Consumer price inflation declined from 29.7 per cent in December 2002 (year-on-year) to 18.4 per cent in December 2003, the lowest level in more than two decades. The public debt burden declined substantially from 80.0 per cent of GNP in 2002 to 70.6 per cent in 2003, but remains high. Turkey's current US$16-billion loan program, which was approved in February 2002, is set to expire at the end of 2004.

Recent economic developments have been positive in **Argentina**, the IMF's third largest borrower with 16 per cent of credit outstanding. The economic recovery was stronger than expected, with real GDP growth estimated at 7.8 per cent in 2003, following an 11-per-cent decline in 2002. Moreover, inflation declined from 41.0 per cent in December 2002 (year-on-year) to

3.7 per cent in December 2003, which is well below the IMF program target rate of 5.5 per cent. The sharp rebound in economic growth boosted tax revenues, which resulted in a primary surplus of 3.0 per cent of GDP in 2003, above the target level of 2.1 per cent. Argentina, however, has made little progress on fulfilling the key conditions of its latest IMF program, which was approved in September 2003. The program is intended to build on the previous eight-month transitional accord, which helped stabilize the economy. Over the period of the new program international financial institutions (IFI) exposure will stay broadly constant. The key terms of the new program include: (i) attaining a debt restructuring agreement with private sector creditors; (ii) banking sector reform; (iii) utility sector reform; and (iv) running a primary surplus sufficient to cover debt service obligations.

Emerging markets in **East Asia** recovered rapidly from the SARS-related downturn in early 2003, and remained the world's fastest-growing region for the year as a whole. Output growth in the region was supported by positive net trade developments due to increased external demand. Despite strong growth, the **Philippines**' outlook was dampened by political turmoil ahead of the May 2004 presidential elections. The government's deteriorating fiscal position resulted in the peso being Asia's worst performing currency in 2003. The Philippines has been in an IMF Post-Program Monitoring framework since March 2001.

IMF Programs for Emerging Economies

	Brazil	**Turkey**	**Argentina**
Amount approved in latest IMF program (US$ billions)	14.8	16.0	12.6
(% of quota)	(333%)	(1,330%)	(424%)
Type of program and approval date	5th Tranche of the September 2002 Arrangement and US$6.7-billion Augmentation (December 2003)	Three-Year Stand-By Arrangement (February 2002)	Three-Year Stand-By Arrangement (September 2003)
Total amount of credit outstanding to the IMF (US$ billions)	28.3	24.1	15.5
(% of quota)	(628%)	(1,682%)	(494%)

Efforts to Promote International Financial Stability

Improving Transparency, Accountability and Openness

Canada supports measures to enhance the transparency and accountability of the Fund's own operations. This reflects the view that the IMF's effectiveness depends in part on its ability to be transparent and fair in the provision of policy advice to its members, accountable for its advice and lending decisions, and open to external input and dialogue.

The IMF has adopted a series of measures in recent years to improve transparency, including guidelines in 2000 under which the Fund now publishes most of its own policy papers and detailed information about its operations and finances. The key initiatives and recent developments include:

- Publishing more information about IMF surveillance of members, including Public Information Notices (PINs), which provide background information on a member country's economy and the IMF's assessment of the country's policies and prospects. PINs are issued at the country's request following the conclusion of the Fund's regular Article IV consultation with the country. Full Article IV staff reports are now published when the country concerned agrees. Canada's most recent PIN and Article IV report can be found on the IMF Web site at www.imf.org/external/country/can/index.htm. Over 80 per cent of IMF member countries have agreed to the publication of PINs.
- Encouraging countries to publish the "mission statements" that are prepared at the time of the IMF's annual Article IV consultations with member countries. Prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides the country's authorities with a statement of its preliminary findings at the conclusion of its discussions with them. A number of countries, including Canada, are now releasing these statements. Canada's most recent mission statement can be found on the IMF Web site at www.imf.org/external/country/can/index.htm.
- Releasing more information about countries' IMF-supported programs and the Executive Board reviews of these programs. The Fund has adopted a policy establishing a presumption in favour of publication of Letters of Intent and other documents that underpin Fund-supported programs. Nearly all policy intention documents of countries requesting Fund financial assistance are published, and two-thirds of staff reports on Article IV consultations and on the use of Fund resources are published by the voluntary decision of country authorities.
- Following a June 2003 review of the Fund's transparency policy, the Executive Board agreed: (i) to move from voluntary to presumed publication of reports on the use of Fund resources; (ii) to move from voluntary to presumed publication for Article IV reports from July 1, 2004; and (iii) that the publication of staff reports on the use of Fund resources in exceptional access cases arising after July 1, 2004, would generally be a precondition for management to recommend approval or augmentation of an arrangement or completion of a review by the Executive Board.

- Publishing staff papers on key policy issues and issuing PINs of the Board discussions of these papers. In addition, the Fund is increasingly posting draft papers on important policy issues on its Web site so that the views of civil society can be taken into account. As well, more financial information is being released about the IMF, including the sources of financing for IMF lending (the quarterly financial transactions plan).
- Providing the public with substantially expanded access to the Fund's archival material.

The Fund is also working to deepen its understanding of international capital markets and financial flows. In 2001 it established the International Capital Markets Department in order to enhance its ability to identify crises early enough to address them effectively. This new department is also strengthening the Fund's ability to help countries gain access to international capital markets, an important step in helping the poorest countries make a breakthrough in poverty reduction. The department's research is summarized quarterly in a new publication, the *Global Financial Stability Report*. In addition, the Capital Markets Consultative Group was established to promote a better dialogue between member countries and private investors and creditors.

With respect to accountability and openness, the IMF has established the Independent Evaluation Office (IEO) to undertake objective assessments of the IMF's operations, policies and programs. The IEO operates independently of IMF management and at arm's length from the Fund's Executive Board.

- The IEO's work program is developed following extensive consultations with government authorities, non-governmental organizations (NGOs), members of the academic community and representatives of the financial sector, as well as the staff, management and Executive Board of the IMF.
- The IEO consults extensively with external stakeholders in deriving the detailed terms of reference for each study and provides further opportunities to comment when the completed evaluation reports are made public.
- In 2002 the IEO produced its first evaluation on the prolonged use of Fund resources. The report made recommendations to diminish the incentives for prolonged use, including by enhancing program effectiveness, and to reduce its adverse consequences. In 2003 the Fund's Executive Board broadly endorsed the evaluation and the work of an IMF follow-up task force and strongly supported rigorous implementation of the IEO recommendations to improve surveillance, conditionality and program design (including the need for more realism in program objectives and assumptions). The Board also supported measures to strengthen "due diligence" of prolonged users, including more systematic *ex post* assessments.
- The IEO completed two more evaluations in 2003, on the role of the IMF in three recent capital account crisis cases (Brazil, Indonesia and Korea) and fiscal adjustment in IMF-supported programs. The report on capital account crises made recommendations to strengthen surveillance, review program

design and improve the Fund's role as crisis coordinator. The Executive Board discussed the report in May 2003 and concurred with its overriding message to strengthen the effectiveness of surveillance by extending and systematizing the current guidelines for assessing vulnerabilities.

- The evaluation of fiscal adjustment examined the quantitative and qualitative dimensions of fiscal adjustment and recommended more in-depth justification for the proposed adjustment path, greater use of contingency plans, including to safeguard social spending, and increased emphasis on key fiscal reforms both in program design and surveillance. The Executive Board reviewed the report in August 2003 and agreed it had a number of useful recommendations.
- The Fund has supported the broad thrust of the reports and drawn on specific recommendations in formulating its policies. The IEO released its first annual report in September 2003, which reviews its first three reports and discusses the status of ongoing evaluations (available on its Web site at www.imf.org/ieo). In 2004 the IEO will undertake work on (i) experience with Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF); (ii) the IMF's role in Argentina; and (iii) IMF technical assistance.

Strengthening Surveillance and Crisis Prevention

Making Surveillance More Effective

Through its surveillance role, the IMF monitors economic and financial developments and policies in member countries and at the global level. Fund surveillance is critical, as it can identify emerging problems and policy imbalances before they become crises. Improved surveillance at the IMF—leading to better information for sound economic analysis, including better pricing of risk, which leads to more stable capital flows—is central to crisis prevention.

The IMF completed a comprehensive review of surveillance in 2002. The review noted that in light of large-scale private capital flows, the IMF has shifted the nature and scope of its surveillance. In recent years the IMF has:

- sharpened its focus on macroeconomic policy, capital flows and structural issues that have an impact on macroeconomic stability, particularly in the financial sector, and on exchange rates;
- developed new analytical tools for assessing external and financial sector vulnerability that will help countries assess reserve adequacy, manage their reserves, and monitor and manage their debt so as to prevent crises;
- made more effective use of the expertise of the World Bank and other institutions on relevant structural issues; and
- promoted greater transparency and information flow, for both member policies and the Fund's own activities.

At its September 2003 meeting, the IMF's International Monetary and Financial Committee emphasized the need for the Fund to continue to improve the quality and effectiveness of its surveillance, including by bringing a fresh perspective to its assessments. Canada supports further efforts to strengthen surveillance by encouraging comprehensive and candid analysis of risks and vulnerabilities to improve program design and outcomes. In particular, it supports improving the framework for assessing the debt sustainability of countries to help diagnose potential debt servicing problems earlier.

Strengthening Institutional Capacity

The Fund is also working with other members of the international community on initiatives designed to improve the institutional capacity of countries to support strong macroeconomic frameworks and more resilient financial systems. These initiatives, which complement the Fund's surveillance framework, include work on standards and codes, data provision, strengthening financial sectors, and technical assistance.

Implementation and Assessment of International Codes and Standards

To help improve economic policy making and strengthen the international financial system, the international community has called upon the IMF and other standard-setting agencies to develop standards and codes covering a wide range of economic and financial areas. In this effort, the Fund is responsible for its core areas of expertise. To date the Fund has adopted a data dissemination standard, a code on fiscal transparency and a similar code with respect to monetary and financial policies.

Implementation is being encouraged, among other things, through the provision of targeted technical assistance in accordance with countries' domestic priorities and circumstances.

There is a general consensus that the IMF has a key coordinating role in assessing observance of codes and standards through its Reports on the Observance of Standards and Codes (ROSCs), as well as through the joint IMF-World Bank Financial Sector Assessment Program (FSAP). Recent developments regarding FSAPs are covered in the "Joint Issues" section.

The Fund has developed a modular approach to ROSCs whereby comprehensive assessments of members' adherence to a range of internationally recognized standards can be built up over time, standard by standard. ROSCs summarize the extent to which countries observe these standards, focusing primarily on the areas of direct operational concern to the IMF, such as data dissemination and fiscal transparency. ROSC modules for the financial sector are now being derived as a by-product of the FSAP process. Canada was the first country to publicly release as a ROSC the assessment of compliance with international standards conducted during its FSAP. Canada has undertaken ROSCs in the areas of banking and insurance supervision, fiscal policy transparency, monetary and financial policy transparency, payments systems and securities regulation. Additionally,

Canada completed a data ROSC in October 2003. Overall, close to half of the IMF's 184 member countries have completed at least one ROSC module.[2] In 2002, Fitch Ratings reported a significant relationship between publication of ROSCs and changes in sovereign ratings over the previous three years, suggesting a positive impact of compliance with standards and transparency on perceptions of creditworthiness. More generally, a recent IMF staff study found that transparency reforms introduced by the IMF in the late 1990s, such as publication of Article IV reports and ROSCs and compliance with the IMF's data standard, have created more informed markets and reduced borrowing costs for the emerging market economies that adopted them.

Strengthening Financial Sectors

The financial crises experienced by emerging market economies in recent years highlighted the critical importance of concerted action to strengthen the international financial system. In recent years the Fund has developed a comprehensive approach to promoting the stability of members' domestic financial sectors as an element of efforts to safeguard the stability of the international system (the main developments in this area are covered in the "Joint Issues" section).

In addition, the IMF is involved in international efforts on financial abuses that threaten the integrity and stability of the international financial system. In particular, the Fund has:

- expanded its anti-money laundering work, including through FSAPs, to cover legal and institutional frameworks;
- extended its involvement beyond money laundering to efforts aimed at countering terrorist financing;
- accelerated its program of offshore financial centres and undertaken onshore assessments in the context of the FSAP;
- helped countries identify gaps in their anti-money laundering and anti-terrorist financing regimes in the context of voluntary Article IV questionnaires;
- enhanced its collaboration with the Financial Action Task Force to develop a mutually acceptable global standard on anti-money laundering; and
- intensified its provision of technical assistance to enable members to implement the agreed international standards and extended it to include help for the creation of financial intelligence units.

In November 2002 the Fund:

- added the Financial Action Task Force recommendations on anti-money laundering and the financing of terrorism to the list of standards and codes for which ROSCs are undertaken in the context of the IMF-World Bank FSAP framework;

[2] Canada's ROSCs can be found on the IMF Web site at www.imf.org/external/np/rosc/rosc.asp#c.

- approved a 12-month pilot project of anti-money laundering and terrorist financing assessments and accompanying ROSCs to be undertaken by the IMF, World Bank and other bodies; and
- adopted a comprehensive assessment methodology developed in collaboration with the World Bank and the Financial Action Task Force.

At its September 2003 meeting, the International Monetary and Financial Committee welcomed the actions taken by the international community to combat money laundering and the financing of terrorism and the progress with the 12-month pilot program of anti-money laundering/combatting the financing of terrorism assessments, and looked forward to a full report at the conclusion of the pilot program.

Technical Assistance

In addition to its policy advice and financing, the IMF provides technical assistance to member countries in its areas of expertise—including macroeconomic policy, monetary and foreign exchange policy and systems, fiscal policy management, external debt and macroeconomic statistics. It has been agreed that technical assistance should play a central role in supporting the work of the IMF in crisis prevention and management, debt relief and poverty reduction, and capacity building in low-income and transition countries.

Since the demand for IMF technical assistance normally exceeds the resources available, the IMF takes a number of considerations into account in setting priorities for country requests. Under guidelines approved in 2001, priorities for technical assistance are set in accordance with the IMF's core areas of specialization, its main program areas and its key policy initiatives, which enables a more systematic alignment of resource commitments with institutional priorities.

In recent years the IMF has adopted a regional approach to the delivery of technical assistance and training. The IMF already operates two regional technical assistance centres, in the Pacific and the Caribbean. As part of its new Africa Capacity-Building Initiative, the Fund increased its technical assistance to the African continent while focusing it more squarely on capacity building. Under this Initiative, the IMF is establishing regional African technical assistance centres (AFRITACs) to provide capacity-building assistance through a team of resident experts, supplemented by short-term specialists in the core areas of the IMF's expertise. The East AFRITAC opened in Tanzania in October 2002 and the West AFRITAC opened in Mali in May 2003. Canada is a major financial contributor to the AFRITAC program.

In Afghanistan, the role of the IMF has been to provide policy advice and technical assistance in establishing an overall road map for reforms. The Fund has also provided specialized assistance in areas such as currency conversion, financial sector and tax legislation, and the strengthening of statistical capacity.

In Iraq, the Fund has been providing technical expertise to help create a stable macroeconomic environment and rebuild Iraq's economic and financial infrastructure. The Fund is performing a debt sustainability analysis for the Paris Club of creditors (of which Canada is a member) before it undertakes debt negotiations. The Fund has also established a donor-sponsored Technical Assistance (TA) Subaccount, and is a member of the International Advisory and Monitoring Board, which oversees the work of the auditors of the Development Fund for Iraq. Finally, the Fund has committed to providing between US$2.5 billion and US$4.25 billion in financing over the next three years, as the situation permits. Canada is a key donor in the IMF's TA Subaccount for Iraq, which is focused on rebuilding the institutional macroeconomic capacity in the country.

Enhancing Crisis Resolution

One of the IMF's primary goals is to reduce the frequency and severity of international financial crises. Despite its crisis prevention efforts, however, financial crises will still occur. The IMF is therefore engaged in the search for possible reforms to improve its capacity to manage and resolve financial crises.

The Fund is focusing on five areas:

- promoting the adoption of collective action clauses in international sovereign bonds;
- implementing the new access policy framework;
- clarifying the policy on Fund lending into sovereign arrears to private creditors;
- strengthening surveillance activities; and
- continuing work to help facilitate the orderly resolution of financial crises.

Canada welcomes ongoing efforts to advance crisis resolution initiatives, as these efforts will ultimately promote a stronger, more stable and efficient international financial system.

Promoting the Adoption of Collective Action Clauses

Collective action clauses are an effective crisis prevention and resolution mechanism, as they facilitate more timely, orderly debt restructurings by helping to address the coordination failures among private creditors. The IMF is promoting the inclusion of collective action clauses in international sovereign bond contracts in jurisdictions where they were not yet market standard by holding an active dialogue with emerging market issuers and private sector participants, and by answering questions regarding areas of potential concerns by issuers. Significant progress has been made in this area, with several emerging markets borrowers adopting collective action clauses in their recent bond issues. The IMF is doing further work to analyze the design and use of collective action clauses by sovereign bond issuers.

Implementing the New Access Policy Framework

In addition, the IMF is working with its membership to establish clearer rules for determining exceptional access to its resources (i.e. loans that are larger than what is normally allowed under IMF lending rules) for countries that face financial crisis. Greater clarity will help shape the expectations of members and markets alike, provide a benchmark for decisions regarding program design and access, safeguard the IMF's resources, and ensure uniformity of treatment of members.

In September 2002 the IMF's Executive Board endorsed the following criteria that would, at a minimum, need to be met to justify exceptional access for member countries facing a capital account crisis:

- the member is experiencing exceptional balance of payments pressures on the capital account resulting in a need for Fund financing that cannot be met within normal limits;
- a rigorous analysis indicates a high probability that the debt will remain sustainable;
- the member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that IMF financing would provide a bridge; and
- the policy program of the member country provides a reasonably strong prospect of success, based on both the member's adjustment plans and its institutional and political capacity to implement that program.

The Board also expressed support for strengthening procedures for decision making on exceptional access proposals, including:

- increasing the burden of proof required in program documents by requiring more extensive justification of the level of access, a rigorous analysis of debt sustainability, and an assessment of the risks to the IMF arising from the exposure and the effect on the IMF's liquidity position;
- formalizing early Executive Board consultation on the status of negotiations in exceptional access cases; and
- requiring *ex post* evaluation of programs of exceptional access.

Canada supports the full implementation of these criteria and procedures, and encourages the IMF to continue to assess whether further refinements are required.

Clarifying the Policy on Lending Into Arrears

The Fund's arrears policy allows the IMF to "lend into arrears" in cases where a debtor member needs more time to reach agreement on a financial restructuring package with private creditors. That is, the Fund stands ready to provide resources to members that are in arrears to private creditors, when prompt support for the successful implementation of the member's adjustment program (including appropriate policy reforms) is essential, and the member is making a good faith effort to reach an agreement with its creditors.

The Managing Director noted in his report to the International Monetary and Financial Committee in the fall of 2003 that the content and application of this good faith criterion may need to be revised when greater clarity emerges regarding the precise content and comprehensiveness of a code of conduct currently being envisaged (the possible role of a code is outlined below). In particular, the principles contained in the code regarding the compliance mechanisms and the degree of information sharing between a sovereign debtor and its creditors may require that the good faith criterion be reassessed.

Strengthening Surveillance Activities

The IMF is strengthening its framework for assessing the ability of countries to carry debt. A strengthened framework should help diagnose potential debt servicing problems earlier and inform the design of economic programs. It is expected that the framework will lead to more credible debt sustainability assessments. Canada strongly supports rigorous debt sustainability analysis to increase the probability of success of Fund programs. This includes testing the robustness of programs to a range of different assumptions about key economic variables such as interest and growth rates.

Examining the Legal Framework for Sovereign Debt Restructuring

Canada has long been a strong advocate of the need to put in place tools and mechanisms to facilitate the more timely, orderly restructuring of unsustainable sovereign debts. The IMF has an important role to play in this regard, given its position at the centre of the international financial system and, more importantly, its ability to help facilitate a more orderly and cooperative resolution of international payment problems.

Canada welcomed the IMF management's proposal to develop a sovereign debt restructuring mechanism, analogous to domestic bankruptcy regimes. However, at the spring 2003 meeting of the International Monetary and Financial Committee there was insufficient consensus among IMF members to move it forward. The Fund is still conducting work on several important issues raised in these discussions, such as inter-creditor equity, aggregation and the scope of debt.

Assessing the Possible Role of a Voluntary Code of Conduct

Efforts are underway to develop a voluntary code of conduct to guide sovereign debtors and their creditors in the restructuring of sovereign debt. The IMF has conducted some research on the problems associated with the current debt-restructuring framework and areas where a code could help improve the process. The international community, including representatives from both the private sector and emerging markets, has also held discussions on the potential benefits of a code of conduct. Canada supports the work being done to develop a code, provided it includes broad support from emerging market borrowers and their creditors.

Improving IMF Lending

A major focus recently has been to examine how resources can be used more efficiently to meet the needs of member countries in promoting economic reform. To that end, the IMF has adopted new guidelines on the conditions attached to its loans and streamlined the structure of its lending facilities.

Focusing Conditionality and Fostering Ownership

An important feature of IMF arrangements is the "conditionality" that borrowing countries undertake to correct their underlying balance of payments problems and to restore their ability to repay the Fund. Over time conditionality had broadened in scope and become more complex, leading to concerns about its impact and effectiveness. In the fall of 2002 the IMF approved new guidelines on the design and implementation of conditionality in Fund-supported programs. The new guidelines represent the outcome of a comprehensive review of conditionality that was launched in 2000. The new guidelines, the first revision since 1979, were developed following an extensive process of consultation with the public.

The review was undertaken with the aim of streamlining and focusing conditionality so as to enhance the success and effectiveness of Fund-supported programs and promote national ownership of reforms. The new guidelines emphasize the need to focus conditionality on policies that are critical to achieving the macroeconomic objectives of programs. The guidelines are based on several interrelated principles, including national ownership of reform programs, parsimony in the application of program-related conditions, effective coordination with other multilateral institutions, and clarity in the specification of program conditions.

Conditions will normally consist of macroeconomic and structural measures that are within the Fund's core areas of responsibilities. Where structural reforms that are critical to a program's success lie outside the Fund's core areas, the Fund should work with the World Bank and other international financial institutions, which have a comparative advantage in the design and monitoring of these measures. A key aspect is that the country should take primary responsibility for its own policies and that conditionality, if well designed and established through a mutually acceptable process led by the member, can strengthen and promote ownership. The IMF has observed that implementation of the new guidelines is leading to changes in the scope and design in Fund programs—structural conditionality is more focused on the Fund's core areas of competence and the average number of structural conditions has declined.

Contingent Credit Lines Facility

As part of its crisis prevention efforts the IMF established the Contingent Credit Lines facility in 1999 to provide countries with demonstrably sound policies a precautionary line of defence against balance of payments problems

that might arise from international financial contagion. However, the facility was not used and the IMF allowed it to expire on its scheduled sunset date of November 30, 2003. Technical issues related to the facility's design, the strengthening of the international financial system, and the availability of other Fund facilities such as precautionary arrangements (which provide assurances of financing in the event of balance of payments need) discouraged use of the facility. In addition, many emerging market economies took measures to reduce their vulnerability to external shocks through reserve accumulation, the adoption of flexible exchange rates, and other reforms. Improved economic and financial information has also helped financial markets to better differentiate between borrowers, reducing the risk of contagion.

Safeguarding IMF Resources

In 2000 the Fund adopted a multi-faceted approach to strengthening the safeguards on the use of IMF resources. Central banks of member countries making use of Fund resources will have to publish annual financial statements, independently audited in accordance with internationally accepted audit standards. If vulnerabilities are identified in a country's ability to manage its resources, including IMF resources, IMF staff will propose remedies, including measures to be implemented before further disbursements of IMF funds. In 2002 the Fund adopted safeguard assessments as a permanent feature of IMF operations.

Safeguarding the IMF's Cooperative Nature

The IMF's cooperative nature is reflected in its resource base, which is derived primarily from the quota subscriptions of member countries, and the consensus-based nature of its decision-making process. If the Fund is to promote international financial stability effectively, it must have adequate resources and ensure that its quota structure and governance arrangements are representative of the membership.

Twelfth General Quota Review

Quota reviews are held every five years to assess the adequacy of IMF resources. The Twelfth Quota Review was concluded in January 2003, but the broad support necessary for a quota increase did not exist. It was agreed during the Thirteenth Quota Review period to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in the world economy and to consider measures to strengthen the governance of the Fund. The IMF's Executive Board reported to the International Monetary and Financial Committee in September that the Fund's liquidity position was adequate; quota-related issues would continue to be considered by the Board, including in the context of regular assessments of the adequacy of Fund resources; and the Board would pursue voice and representation issues on two different tracks—quota-related topics and administrative and capacity-building initiatives.

The Board noted the concrete measures the Fund had already taken to address staffing constraints in the offices of Executive Directors with large multi-country constituencies and was considering other steps. The administrative and capacity-building initiatives are covered more extensively in the "Joint Issues" section.

IMF Lending Capacity

Better information on the activities of the IMF enhances the transparency and accountability of the institution. To provide a clearer understanding of the amount of its regular financing resources that is available for new lending, in December 2002 the IMF adopted a new method of measuring its liquidity. The new measure—the one-year forward commitment capacity—indicates the amount of quota-based and non-concessional resources available for lending to member countries.

The one-year forward capacity reflects the IMF's stock of usable resources minus undrawn balances for current lending arrangements, plus projected repayments by IMF borrowers over the coming 12 months. A prudential balance—to safeguard the liquidity of creditors' claims and to take account of a potential erosion of the resource base—is also deducted to arrive at the final forward commitment amount. At the end of 2003 the IMF's one-year forward commitment capacity amounted to SDR 54.2 billion (US$80 billion).

How to Access Information at the IMF

A vast array of Fund information—including fact sheets, press releases, speeches, the *IMF Survey*, annual reports, world economic outlooks, staff country reports and working papers—is available on the Fund's Web site at www.imf.org. In addition, the IMF's Publications Services provides a wide variety of Fund documents on the policies and operations of the IMF, as well as world financial and economic developments:

- IMF annual reports
- *World Economic Outlook*
- *Global Financial Stability Report*
- IMF staff country reports
- *International Financial Statistics*
- *Annual Report on Exchange Arrangements and Exchange Restrictions*
- press releases
- *IMF Survey*
- publications of the Independent Evaluation Office

Publications Services is located at 700 – 19th Street N.W., Washington, DC 20431, USA. Phone: (202) 623-7430; fax: (202) 623-7201. Internet e-mail address: publications@imf.org.

Strengthening Support for Low-Income Countries

The IMF is fully committed to supporting low-income members in advancing towards the United Nations Millennium Development Goals through its poverty reduction and debt relief efforts. Canada places a high priority on reducing poverty and ensuring that debt relief does indeed go to the poorest, most heavily indebted countries committed to good governance. Although the World Bank is the central institution for poverty reduction, the IMF plays a role in promoting macroeconomic stability—a key condition for achieving poverty reduction and growth. Direct anti-poverty measures are playing a central role in programs supported by the IMF through its Poverty Reduction and Growth Facility. These programs are consistent with a comprehensive, nationally owned Poverty Reduction Strategy Paper prepared by the borrowing country and are based on a process involving the participation of civil society, NGOs, donors and international institutions.

In September 2003 the International Monetary and Financial Committee reiterated the need for the IMF to remain engaged with low-income countries over the longer term through well-targeted technical assistance, capacity building, surveillance and, when warranted, temporary financial assistance. The Committee emphasized the importance of initiatives aimed at ensuring that macroeconomic policy frameworks support higher and sustainable growth and poverty reduction; improving governance and strengthening institutions to support growth and private sector development; reducing vulnerabilities to external shocks; and helping countries move beyond sustained reliance on IMF financial arrangements when ready. In 2004 the Fund will review its role in the low-income countries over the medium term, including an examination of its instruments and financing for these countries.

Lending Developments in 2003

A core activity of the Fund is to provide short- and medium-term financial assistance to members faced with balance of payments difficulties. The objective is to enable countries facing such difficulties to correct temporary payments imbalances with a minimum of disruption to the international monetary system. The provision of financing from the IMF, as well as the additional financing that an arrangement with the Fund often attracts from other sources, enables countries to undertake smoother economic adjustment.

At the end of 2003 the IMF had lending arrangements worth SDR 63.5 billion in place for 57 member countries (see Annex 1). Drawings under lending commitments remained at a very high level in 2003, although decreasing slightly to SDR 21.1 billion. As disbursements continued to exceed repayments, non-concessional credit outstanding rose to a record SDR 70 billion in September 2003, before declining to SDR 65 billion by year end. The bulk of the non-concessional lending took place under Stand-By Arrangements and remained concentrated in several members with large balance of payments needs. Brazil and Argentina received the largest

disbursements, with some of Brazil's financed through the Supplemental Reserve Facility, the Fund's short-term lending facility that addresses crisis situations. The IMF approved 10 new Stand-Bys and one Extended arrangement in 2003. Of the current 17 Stand-Bys, 7 are being treated as precautionary, with borrowers having indicated that they do not intend to draw on the funds committed to them.

Table 1
IMF Resource Flows

	2002	2003
	(in SDR billions)	
Total purchases	26.5	21.1
Of which:		
Stand-By Arrangements	23.9	18.7
Extended Fund Facility	1.3	1.6
Poverty Reduction and Growth Facility	1.3	0.8
Total repurchases	16.0	19.7
Net purchases	10.5	1.4

Lending decreased under the IMF's concessional facility, the Poverty Reduction and Growth Facility (PRGF). About half of PRGF-eligible countries had PRGF arrangements in 2003, with 10 new arrangements approved during the year. No drawings were made under the Compensatory Financing Facility, one of the Fund's other special-purpose facilities.

Managing Canada's Interests at the IMF

The Minister of Finance is Canada's Governor at the IMF and is responsible for the management of Canadian interests at the Fund. The Minister exercises influence on IMF issues through Canada's Executive Director at the Fund's Executive Board, interventions at the spring and fall meetings of the International Monetary and Financial Committee, his plenary speech at the IMF and World Bank annual meetings, and periodic meetings with the Managing Director of the Fund (the Minister's speeches are available on the Department of Finance Web site at www.fin.gc.ca). The Governor of the Bank of Canada is Canada's Alternate Governor of the IMF. The Governor also attends the Fund's spring and fall meetings.

The management of Canada's interests in the ongoing work of the IMF is the responsibility of the Executive Director, Ian E. Bennett, Canada's representative on the Executive Board. He is one of 24 Executive Directors. In addition to Canada, he represents 11 other countries (Ireland and 10 Caribbean countries), which form a constituency at the Executive Board. Of the 24 members of the current Executive Board, 12 are from developing or transition countries and 12 from industrialized countries. As the main decision-making body of the Fund, the Board normally meets three times a week.

The Department of Finance coordinates Canadian policy advice on IMF issues and Canada's operational interests in the IMF. The Bank of Canada also provides advice on IMF issues to Canada's Executive Director. Other involved government organizations include the Department of Foreign Affairs and International Trade and the Canadian International Development Agency. Within the Department of Finance, the International Trade and Finance Branch is responsible for conducting analyses and preparing advice on the policy issues and specific country programs that are brought before the Executive Board. The Department and Canada's Executive Director's office also work closely with Canada's World Bank Executive Director's office and meet regularly with Canadian NGOs.

Parliament is informed of the activities and operations of the Bretton Woods Institutions through the tabling of the annual report on their operations and through appearances of the Canadian Executive Directors and departmental officials before parliamentary committees.

Canada's Voting Record

Since most decisions at the Fund are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of Fund policy proposals before they are brought to the Board (often through the circulation of memoranda outlining Canadian positions) or to influence other members in the course of Board discussions. But in 2003 Canada voted against an increase in the remuneration of IMF Executive Directors and abstained on an increase in staff salaries.

Canada's Office at the IMF

In addition to the Executive Director, Canada's office is staffed by two Canadian senior advisors and two advisors, one of which rotates with other members of the constituency. Ireland staffs the Alternate Executive Director's position and the Caribbean countries staff a third senior advisor's position.

The primary responsibility of the Executive Director's Office is to represent the interests of Canada and the other members of the constituency at the Fund's Executive Board. The office participates in the Board's discussions on a wide variety of policy, operational and administrative matters, including surveillance issues and country assistance requests and reviews.

Members of the Executive Director's Office

Executive Director	Ian E. Bennett (Canada)
Alternate Executive Director	Charles O'Loghlin (Ireland)
Senior Advisor	Frank Vermaeten (Canada)
Senior Advisor	Richard Campbell (Caribbean)
Senior Advisor	Mark Kruger (Canada)
Advisor	Chris Faircloth (Canada)
Advisor	Charleen Adam Gust (Canada)
Advisor	Emma Cunningham (Ireland)
Administrative Assistant	Monique Chagnon (Canada)
Administrative Assistant	Catherine Byrne (Ireland)
Administrative Assistant	Liz Craib (Canada)
Phone/fax	(202) 623-7778/(202) 623-4712
Address	11-112, 700 – 19th Street N.W., Washington, DC 20431, USA

Canada's Financial Participation

Canada's financial participation in the IMF consists primarily of its quota subscription. Canada's quota is SDR 6,369.2 million, or about 3 per cent of total quotas. Canada's quota subscription is a government asset, which is made available to the Fund partly in Canadian dollars and partly in reserve currencies, such as US dollars or SDRs. These latter non-Canadian dollar amounts continue to be part of Canada's foreign exchange reserves. As an asset, Canada's quota subscription is not recorded as an expenditure item in the budget of the Canadian government.

Only a very small portion of the Canadian dollar part of Canada's subscription is actually held in cash by the IMF. The balance is held by the Bank of Canada in the form of demand notes, which are available to the Fund in the event it needs to draw upon additional resources. Canada earns interest on its quota subscription when the Canadian dollar is used in Fund lending operations, i.e. is drawn by other member countries. In 2003 Canada received SDR 39.2 million on its net creditor position in the IMF. The net income from Canada's net creditor position with the Fund is paid into the Government of Canada's Exchange Fund Account, adding to the foreign exchange reserves.

Table 2
Canada's Financial Position in the IMF

	December 31, 2003	December 31, 2002
	(in SDR millions)	
Quota	6,369.2	6,369.2
Fund holdings of Canadian dollars	3,780.3*	3,735.8*
Reserve position in the Fund	2,588.9**	2,633.4**

* In accordance with Fund regulations, at least 0.25 per cent of Canada's quota is held by the IMF in a Canadian dollar cash deposit at the Bank of Canada. The Fund's remaining Canadian dollar holdings are in the form of non-interest-bearing demand notes, also kept by the Bank of Canada.

**This is the amount Canada is entitled to draw on demand from the IMF for balance of payments purposes. Canada's reserve position in the Fund is the result of the portion of Canada's quota subscription made available to the Fund over time in reserve currencies, the use of the Canadian dollar in Fund financial transactions with other members, and loans to the IMF under borrowing arrangements such as the General Arrangements to Borrow and New Arrangements to Borrow. As the name suggests, Canada's reserve position in the Fund is a part of Canada's official foreign exchange reserves.

At the end of 2003 Canada's holdings of SDRs amounted to SDR 564.0 million, or 72.4 per cent of Canada's cumulative allocation of SDRs. In 2003 Canada held SDRs in an amount below its allocation, and so paid net interest of SDR 4.1 million.[3]

Last year, in line with earlier commitments, Canada made further contributions to the IMF's Poverty Reduction and Growth Facility. The facility provides financial support on concessional terms to low-income countries facing protracted balance of payments problems. Canada's total commitment to the Poverty Reduction and Growth Facility is a loan of SDR 700 million and a grant of approximately SDR 190 million. At the end of 2003 loan payments under these arrangements totalled SDR 638.7 million of the SDR 700 million, and subsidy contributions equalled SDR 182.2 million of the SDR 190 million. In 2003 Canada received SDR 11.3 million in interest earned on loans to the Poverty Reduction and Growth Facility.

Further, Canada is a participant in a financing arrangement established to supplement the Fund's regular resources in the event of financial crises, the New Arrangements to Borrow (NAB), which was not activated in 2003 (see the box on the next page). Canada is also a participant in the General Arrangements to Borrow (GAB), an earlier credit arrangement established by the Group of Ten (G-10). Canada's GAB commitment is the equivalent of SDR 892.5 million. This line of credit was not used in 2003.

[3] When a member's holdings of SDRs is greater (lesser) than its cumulative allocation, that member (the Fund) receives interest on the difference.

New Arrangements to Borrow

The following are the main features of the NAB, which came into force in 1998:

- Participating countries will make loans to the IMF when supplementary resources are needed to forestall or cope with an impairment of the international monetary system, or deal with an exceptional situation that poses a threat to the stability of the system.
- Twenty-five countries have agreed to lend up to SDR 34 billion (about C$68 billion) to the Fund in case of financial emergencies.
- Canada's share in the arrangement is 4.1 per cent, in the form of a commitment to provide non-budgetary loans to the IMF from its international reserves.
- The NAB does not replace the GAB, which remains in force. However, the NAB will be the first and principal recourse of the IMF if supplementary resources are needed.

Challenges Ahead

A key challenge for the Fund is to ensure that it meets the needs of an increasingly integrated global economic system. The evolution of the Fund's place in the international financial system must continue to reflect changes in the world economy. In particular, there is a need to assess the role of the Fund in a world of large-scale private capital flows. To meet these challenges:

- The Fund should continue to work to strengthen surveillance to prevent crises, including through rigorous debt sustainability analysis to increase the probability of success of Fund programs.
- The Fund needs to continue its efforts to improve its capacity to manage and resolve financial crises, including through the full implementation of the new criteria and procedures for exceptional access to Fund resources, and assess whether further refinements are required.
- The Fund should review its role in supporting low-income countries over the medium-term, including its instruments and level of financing and how best countries might exit from reliance on Fund concessional resources.
- The Fund should also continue to work to make IMF quotas more reflective of developments in the world economy and ensure that Fund governance is representative.

World Bank

Benefits of Membership to Canada

Membership in the World Bank (the Bank) affords Canada an important voice on key development issues in the world's premier multilateral development institution. With 184 members, and loans and credits outstanding to 142 developing and transition member countries at the end of fiscal year (FY) 2003[4] totalling US$223.1 billion, the Bank has a far-reaching impact on global development and poverty reduction. It provides policy advice and financial support crucial to improving borrowing members' longer-term development and poverty reduction prospects. It also assists members by providing concessional assistance and improved access to world financial markets for development purposes.

Canada's capital share of about 3 per cent gives it a seat on the Bank's Executive Board and on the Development Committee of the Boards of Governors of the Bank and the IMF. Canada has the opportunity at the Executive Board, in dialogue with Bank staff, and at the annual meetings of the Board of Governors (and the Development Committee) to provide direct input into the formulation of Bank policies and operational decisions. Canada and other shareholders help to guide the Bank in improving developing countries' economic, social and environmental performance. Through its engagement with the Bank, Canada's influence in developing countries can be leveraged beyond what can be achieved through bilateral programs. For example, Canada has played a leading role in the Bank's discussion of the implementation of the heavily indebted poor country debt relief initiative, in shaping the institution's response to post-conflict countries, and in its efforts to assist developing countries combat terrorist financing and money laundering.

Bank membership also provides the Canadian government with access to the institution's research and policy work, which enriches our own understanding of international development. The Canadian International Development Agency (CIDA), for example, is able to draw on Bank analytic and technical expertise in order to gain a more comprehensive understanding of the social and economic policy environments that are conducive to effective aid delivery. CIDA is also able to leverage its own resources with those of the Bank through participation in a growing number of partnerships with, and in global programs led by, the Bank. Finally, Canada's membership allows Canadian companies and individuals substantial procurement opportunities—in 2003 they provided goods and services worth US$139 million under Bank-financed contracts.

[4] The World Bank's fiscal year begins on July 1 and ends June 30 the following calendar year.

Overview of Operations in 2003

In FY 2003 the Bank committed loans and credits of US$18.5 billion to 88 developing and transition countries (see Annex 2). The International Bank for Reconstruction and Development (IBRD) committed US$11.2 billion in new loans in FY 2003, or roughly US$300 million less than in FY 2002. The Bank provided concessional lending through the International Development Association (IDA) valued at US$7.3 billion in FY 2003, down slightly from the US$8 billion recorded in FY 2002.

Geographic and Sectoral Focus of Lending

Reflecting significant adjustment lending to large South American emerging market borrowers, new IBRD lending commitments in FY 2003 were highest in the Latin America and Caribbean region, which accounted for 50 per cent of all IBRD lending. The Europe and Central Asia region saw the next highest lending share at 19 per cent, followed by the East Asia and Pacific region at 16 per cent, the Middle East and North Africa region at 8 per cent and the South Asian region at 7 per cent. Given its non-concessional lending terms, the IBRD is not a major lender to African countries

In FY 2003, at 51 per cent, Africa accounted for the largest share of IDA lending and exceeded IDA's indicative target of having 50 per cent of its operations oriented to this continent. South Asia accounted for 29 per cent of IDA commitments and the East Asia/Pacific region and Europe/Central Asia region accounted for 7 per cent and 8 per cent respectively.

The Bank's strong commitment to investing in people is reflected in the sectoral breakdown of both IBRD and IDA lending operations. Support for social sector investments, in particular, remains a high priority. The areas of social protection, social development and human development accounted for 43 per cent of total World Bank commitments in FY 2003. The largest increases in sector lending over FY 2002 were in the education, health and other social services, and water, sanitation and flood protection sectors. Each of these sectors is a key element to reducing poverty and meeting Millennium Development Goal targets (see box on page 33). Approximately 38 per cent of IBRD commitments and 41 per cent of IDA commitments supported these three sectors.

Non-Lending Operations

In FY 2003 the Bank continued its strong focus on non-lending services in order to enhance the developmental effectiveness of its operations. The Bank provides a wide range of advisory, analytical, training and knowledge-related services in support of building domestic capacities. Through its non-lending activities, the Bank provides valuable policy advice that can bolster the effectiveness of its investment and adjustment lending.

How the World Bank Group Works

The World Bank Group is made up of four complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC).

The IBRD and IDA (together commonly known as the World Bank) provide funding for investment projects and for adjustment—or economic and sector reform—operations. The IBRD lends on non-concessional terms (charging an interest rate that is slightly above its own borrowing costs) to better-off borrowing members, while IDA provides 35- and 40-year interest-free credits to the poorest borrowers. Since July 2002 IDA also provides grants for certain specific purposes. IDA is the largest source of development finance for the world's poorest countries. The IBRD raises its funds primarily on international markets on the strength of its triple-A credit rating. In effect, the IBRD on-lends to borrowing countries at a rate of interest much lower than that which they could secure on their own borrowings. IDA, on the other hand, receives grant funding from donors, loan repayments and annual allocations from IBRD net income. As of June 2003 outstanding IBRD loans and IDA credits amounted to US$116.2 billion and US$106.9 billion respectively.

The IFC supplements the activities of the IBRD and IDA by undertaking investments on commercial terms in productive private sector enterprises. The IFC provides such services as direct private sector loans, equity investments, resource mobilization and technical assistance. As of June 2003, the total committed loan and equity portfolio was equivalent to US$16.8 billion. MIGA's mandate complements that of the IFC: it promotes private foreign direct investment in developing countries, primarily by providing insurance against non-commercial risk, such as the risk of currency inconvertibility during civil conflict. MIGA's outstanding portfolio as of June 2003 amounted to US$5.1 billion.

Each of the 184 shareholders has a seat on the Board of Governors of the World Bank. Most decisions on policy, operational and administrative issues, however, have been delegated to the 24-member Executive Board. Membership on the Executive Board is evenly split between developed and developing countries.

Strengthening the World Bank's Poverty Reduction Focus

Focusing Operations on the Millennium Development Goals

The recognition that the Millennium Development Goals (MDGs) can be achieved only through empowerment of the poor underpins the Bank's approaches to countries and sectors. The MDGs now form the cornerstone of the Bank's strategic planning and operational priority setting. The Bank is also working closely with the United Nations system and the Organisation for Economic Co-operation and Development in strengthening international monitoring of the progress being made towards achieving the MDGs.

A key task for the Bank in this exercise will be to develop a framework for benchmarking performance among both developing countries and donor agencies. The Bank, together with the IMF and the UN system, is strengthening its country and thematic databases. Publicly available data will be posted on the Development Gateway (www.developmentgateway.org). As national capacity in gathering and assessing statistics is critical to efforts for monitoring progress towards the MDGs, in 2003 the Bank increased its focus on assisting developing countries develop their national statistical capacity.

Millennium Development Goals

At the Millennium Summit in September 2000, world leaders adopted specific development goals that can be monitored. Subsequently, the United Nations published eight Millennium Development Goals in the September 6, 2001, report of the UN Secretary General on the road map towards implementing the UN Millennium Declaration. The eight goals are:

- to halve, between 1990 and 2015, the proportion of people living on less than one US dollar a day; and to halve, between 1990 and 2015, the proportion of people suffering from hunger;
- to ensure that, by 2015, all children can complete primary schooling;
- to eliminate gender disparity in primary and secondary education, preferably by 2005, and at all education levels no later than 2015;
- to reduce by two-thirds, between 1990 and 2015, the mortality rate for children under 5 years old;
- to reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio;
- to have halted and begun to reverse, by 2015, the spread of HIV/AIDS; and to have halted and begun to reverse by 2015 the incidence of malaria and other major diseases;
- to integrate the principles of sustainable development into country policies and programs and to reverse the loss of environmental resources; and to halve, by 2015, the proportion of people without sustainable access to safe drinking water; and
- to develop a global partnership for development including through trade openness and debt relief.

At the request of the Development Committee, the World Bank will be working closely with the UN, which has the lead responsibility for tracking progress towards the MDGs, to develop a framework to monitor the implementation of policies that are necessary to promote the attainment of the MDGs. Given the shared responsibility and mutual accountability for both developing and developed countries for working towards the MDGs, the Bank's monitoring framework will assess economic and governance policies of developing countries as well as the official development assistance, trade and economic policies of developed countries.

The Bank is also working in partnership with developing countries, other aid agencies and civil society more directly to design and implement initiatives to support developing countries in their efforts to reach specific MDGs. These efforts include "fast-track" initiatives that will target Bank and donor resources on countries demonstrating strong commitment to improving social sector programs.

Economic Prospects for Developing Countries

Real GDP in developing countries is estimated to have grown by 4.0 per cent in 2003, up from 2.8 per cent in 2002. Growth is projected to increase further in 2004 given the expected improvement in external demand in developed countries. Economic prospects, however, vary substantially both across and within regions. While growth is still low relative to other areas of the developing world, **Latin America** showed increasing evidence of a recovery during 2003. Real GDP growth throughout the region is estimated at 1.8 per cent in 2003, up from a 0.8-per-cent decline in 2002. The upturn has been mainly driven by renewed confidence in Brazil and a strong rebound in Argentina. These favourable developments in the region were partly offset by a 10.3-per-cent decline in real GDP in Venezuela, where the unresolved political crisis has had a major impact on economic activity.

Latin America continued to be a major focus of World Bank operations in FY 2003. The World Bank committed US$1.2 billion in loans to the Brazilian government to support its financial sector and human development reform programs. Argentina received US$1.1 billion in FY 2003 to support the government's efforts to restore economic growth. The focus of the Bank's lending to Argentina is on reinforcing social programs to mitigate the adverse effects of the current financial crisis on the country's poor.

Recovering rapidly from the SARS-related downturn in early 2003, **East Asia** remained the world's fastest-growing region for the year as a whole. Growth in the region was largely boosted by real GDP growth of 9.1 per cent in China. The World Bank provided substantial financing to China in FY 2003, with loans totalling US$1.1 billion on six different projects. In **South Asia**, a return to trend in agricultural production and a recovery in external demand led to an acceleration of growth in 2003. Reaping the benefits of last year's good rainfall on agricultural production, India was one of the fastest-growing economies in the world, registering a growth rate above the government's 8.0-per-cent target in 2003. As of June 2003, India was the largest single cumulative recipient of World Bank assistance, with lending totalling over US$59 billion. In FY 2003, the World Bank committed US$1.5 billion to develop income opportunities for the rural poor and support infrastructure development to promote private-sector-led growth.

In **Africa**, subdued global economic growth, together with recurring civil strife, drought and the HIV/AIDS pandemic, continued to hamper real growth in 2003. Import demand from Europe, the region's main trading partner, was

particularly weak. Although most dollar-denominated commodity prices rebounded from recent lows, terms of trade of non-oil exporters have recovered little of their losses of the past few years. The World Bank committed more than US$3.7 billion in 27 African countries in FY 2003. The main priorities of the World Bank's work in Africa are to tackle the HIV/AIDS pandemic, spur private sector development, help countries recover from conflict, and help create and share knowledge.

Stronger Focus on Country Ownership

The Bank continues to base its operations on the principles of country ownership that underpin the Comprehensive Development Framework (CDF).[5] Under the broad CDF approach, "homegrown" Poverty Reduction Strategy Papers (PRSPs)[6] are being developed by an increasing number of poor countries as the driver of their national development plans and poverty reduction policies. Increasingly, PRSPs are also driving operations of the Bank and Fund in the poorest countries.

PRSPs are a continuous and evolving process, and many developing country governments have relied on extensive Bank support in this initial stage of design and implementation.

In early 2002 the World Bank and IMF undertook a comprehensive review of the PRSP process. Results show that PRSPs are becoming a valuable tool for enhancing development outcomes. However, it is also clear that more attention needs to be paid to implementation challenges and to addressing bottlenecks in the process. These challenges include enhancing stakeholder participation; improving the link between PRSPs and national budgets and policy-making processes; and improving the coordination and harmonization of donor support.

Adjustment Lending

One of the consequences of the shift in Bank operations to support country-owned development and poverty reduction strategies has been a high level of adjustment lending in overall Bank financing. Adjustment loans are used to support sector-wide reforms and restructuring. Since the early 1990s the share of adjustment lending in overall Bank lending has consistently been

[5] The CDF aims to integrate better the social, environmental and governance aspects of development with financial and structural considerations. Under the CDF, the Bank and other development players take a longer-term view of development and work in closer partnership with developing countries, civil society and the private sector in supporting country-led development programs. The CDF also recognizes the need for developing country ownership of their development agendas, the need for a strong focus on development results, and the need for greater coordination and partnership among all development sectors.

[6] PRSPs were originally conceived as a comprehensive policy mechanism to link heavily indebted poor country debt relief more closely with poverty reduction initiatives. They are rapidly evolving into the primary statement of the development strategy of the world's poorest countries.

above the 25-per-cent notional level established by the Executive Board. In years when the Bank has been active in supporting major borrowers that are experiencing severe financial difficulties, adjustment lending is especially high. Adjustment operations accounted for 33 per cent of overall World Bank lending in FY 2003, compared to 50 per cent in FY 2002. This represents a return to previous levels of adjustment lending after a high volume of these loans in FY 2002.

Poverty Reduction Support Credits (PRSCs), introduced in May 2001, represent a new type of adjustment operation that provides budgetary financing in support of the implementation of PRSPs. PRSCs ease administrative burdens on borrowers and encourage harmonization of donor practices. PRSCs are used in cases where clients have transparent budgetary and fiduciary processes and strong PRSPs in place. PRSCs have been approved for a number of developing countries.

Adjustment lending is also often used to provide support to middle-income and emerging market economies that are experiencing acute financial problems. In FY 2003 the region encompassing Latin America and the Caribbean received 60 per cent of total adjustment-lending commitments, the largest regional share by a significant margin. Adjustment lending has been higher in the case of the IBRD than of IDA. In FY 2003, 37 per cent of IBRD commitments were in the form of adjustment loans, compared to 25 per cent for IDA.

Monitoring and Evaluation

The Bank continues to adjust its system of project monitoring and evaluation. Many of the problems stem from both limited borrower capacity and a lack of incentives and guidelines for Bank staff. At Development Committee and other international meetings, Ministers have highlighted the importance of an enhanced focus on results in helping both developing countries and donors design and implement poverty reduction strategies. In response, Bank management has embarked on a process of developing a more comprehensive approach to measuring and monitoring development results. The Bank's approach is focused both on tying its own performance benchmarks more closely with the development priorities of individual PRSPs and on increasing Bank support for statistical and public sector institutional capacity within developing countries. By the end of 2003, the Bank had launched a number of "results-based" Country Assistance Strategy (CAS) pilots. An assessment of the lessons learned from these pilots is underway and the results will inform how to mainstream results into all CASs going forward.

Assessing Poverty

To ensure that poverty reduction remains at the heart of the institution's operations, the Bank's Poverty Reduction and Economic Management Network (PREM) undertakes country-specific poverty assessments and advises Bank country teams on the poverty reduction impacts of emerging

policies, programs and individual projects. PREM has concluded country poverty assessments that cover a large majority of the world's poor. The quality of poverty data, however, is uneven, and PREM continues to work to improve the consistency of its assessments.

The World Bank's Response to the HIV/AIDS Pandemic

HIV/AIDS is no longer just a public health issue; it is a development crisis. Of the approximately 40 million people around the globe who are living with HIV/AIDS, 95 per cent are in developing countries. The high infection rates in developing countries are killing or incapacitating many of the most productive individuals and threaten economic and social stability. One-third of those infected in developing countries are in the 15–24 age bracket. AIDS is now the leading cause of death in Sub-Saharan Africa and among males in the Caribbean. In the hardest-hit countries, HIV/AIDS threatens to reverse the development gains achieved over the past 30 years.

Most of the Bank's HIV/AIDS programming is delivered through IDA, which has mainstreamed HIV/AIDS into its work. In September 2000 the Bank launched a Multi-Country HIV/AIDS Program (MAP) for Africa that has made US$1 billion available to African governments to scale up national efforts to combat HIV/AIDS. The overall development objective of the MAP is to dramatically increase access to HIV/AIDS prevention, care and treatment programs. The MAP places a special emphasis on vulnerable groups such as youth and women of childbearing age. The MAP provides support to community organizations, NGOs and the private sector for local HIV/AIDS initiatives. The Bank has also commited an additional US$155 million for HIV/AIDS projects in the Caribbean region. The Bank is heavily involved in international efforts to combat the disease. The Bank is one of eight co-sponsors of UNAIDS (which spearheads the UN's response to the crisis). The Bank is also fostering private-public partnerships designed to accelerate the development of an HIV/AIDS vaccine for use in developing countries. The Bank is an active partner in the Global Fund to Fight AIDS, Tuberculosis, and Malaria that was launched at the G-8 Summit in Genoa. The Bank, along with UNAIDS and the World Health Organization, hold ex-officio (non-voting) seats on the Board of the Global Fund. The Bank is also the Trustee of the Global Fund, with responsibility for the collection, investment and management of funds, disbursement of funds to countries and programs, and financial reporting.

During negotiations for the 13th replenishment of IDA (IDA13), IDA donors agreed that all IDA financing for HIV/AIDS projects in the poorest IDA countries (those that do not also have access to IBRD financing) will be provided on a grants basis. For richer IDA countries, donors agreed that 25 per cent of IDA financing for HIV/AIDS projects will be provided on a grants basis.

The IDA13 Replenishment—Enhancing Support for Country Ownership

In July 2002, 39 donor governments concluded negotiations on the 13th replenishment of the International Development Association (IDA13). Their report was endorsed by Bank Governors at the institution's annual meeting in September 2002. The IDA13 period runs from July 2002 to June 2005. The IDA Deputies' Report, which serves as the IDA13 policy framework, is available on the Bank's Web site at http://siteresources.worldbank.org/IDA/Resources/FinaltextIDA13Report.pdf.

Donors agreed to a total IDA13 replenishment of SDR 18 billion (roughly equivalent to US$23 billion). Donors will provide about 60 per cent of this amount. The remainder will be funded from repayment flows on outstanding IDA loans and net income transfers from the IBRD. Canada agreed to maintain its 3.75-per-cent donor share during the IDA13 period, which equates to C$690.4 million. This amount will be paid in three equal annual installments over the 2003–2005 period. This contribution makes Canada the seventh largest IDA donor.

In terms of operational priorities, IDA donors and Bank management agreed that IDA will link its operations more closely to country-owned poverty reduction strategies. Within the framework of support for PRSPs, donors have stressed the need for IDA to invest in people, especially through education, health and basic infrastructure, and by strengthening public sector management. They reiterated the IDA12 objective of having Africa account for half of IDA allocations.

Donors also agreed to a key innovation in IDA financing. During the IDA13 period, IDA for the first time is able to provide substantial grants, as opposed to interest-free loans, for certain specific purposes. After a series of difficult negotiations, in which Canada played a strong mediating role, donors agreed that IDA could provide grants in the range of 18 to 21 per cent of total IDA13 financing. Within the overall grants level of 18 to 21 per cent of IDA13 financing, donors have suggested that grants be directed at:

1. support for post-conflict countries (up to 100 per cent grants for this type of operation);
2. support for reconstruction following natural disasters (up to 100 per cent grants for this type of operation);
3. support for HIV/AIDS programs in all IDA countries (up to 100 per cent grants for the poorest, IDA-only clients and up to 25 per cent grants for richer, IDA-blend clients);[7]

[7] IDA borrowers are divided into two categories: "IDA only" and "IDA blend." The latter are generally characterized by higher per capita incomes and are usually considered creditworthy for non-concessional IBRD loans as well as concessional IDA financing. IDA-only countries are the poorest borrowers and they are not considered creditworthy for IBRD lending.

4. support for IDA clients with per capita incomes under US$360 that are vulnerable to longer-term debt sustainability problems (up to 40 per cent grants for operations in these countries); and
5. support for other IDA clients with per capita incomes under US$360 (up to 23 per cent grants for operations in these countries).

At the insistence of IDA donors, management has agreed to focus more heavily on measuring the development results of IDA operations. During the IDA13 period, management will develop specific outcome-based benchmarks for assessing the effectiveness of IDA assistance.

IDA donors also urged IDA to be more selective in its operations and to work closely with other development partners, on the basis of comparative advantage. They reaffirmed the importance of IDA's performance-based allocation mechanism, and especially the high weight it assigns governance. They also requested that management assess the impact of this allocation mechanism on poverty levels. At the same time, they recommended that IDA show greater flexibility with respect to allocations to post-conflict countries where there has been little opportunity to establish policy track records.

Negotiations on the volume of financing and operational priorities for the 14th replenishment of IDA began in February 2004 and are expected to conclude by the end of the year. The 14th replenishment period will run from July 2005 to June 2008.

IDA—Focused on the World's Poorest

Established in 1960, IDA is the single most important source of external development support for the world's poorest countries. IDA provides some US$8 billion annually in highly concessional long-term financing to 79 countries, home to 2.4 billion people, of whom 80 per cent live on less than US$2 a day and 40 per cent survive on less than US$1 a day. From July 2002 IDA has been able to provide a significant portion of its financing to the poorest IDA-eligible countries on a grants basis.

Eligibility for IDA concessional lending is based primarily on an assessment of an individual country's per capita income. The operational cut-off for IDA eligibility is US$875 per capita. A number of small island states with per capita incomes above this threshold are also eligible for IDA concessional financing given their limited capacity and high vulnerability to external shocks.

IDA helps provide access to improved social services such as schools, hospitals and clinics, and clean water and sanitation services. IDA also supports investments aimed at improving productivity and creating employment.

To ensure that its resources are used effectively, IDA allocations to clients are governed by performance criteria that are heavily focused on good governance.

Canada's Financial Participation in the IBRD and IDA

IBRD

As a shareholder of the IBRD, Canada has a capital share of 2.85 per cent and a voting share of 2.79 per cent. A relatively small proportion of this capital is required to be "paid-in"—about 6 per cent overall, but just 3 per cent in the last capital subscription. The remainder is "callable" in the unlikely event that the IBRD needs it from member countries. Callable capital represents a contingent liability for shareholders. The IBRD leverages paid-in capital to raise financing in international capital markets for its lending program. The IBRD's capital adequacy is regularly reviewed and the institution's capital is replenished through occasional general capital increases. The last general capital increase was in 1988.

Canada's Total IBRD Subscriptions and Contributions Committed

(in millions of US dollars)	Of which paid-in	Of which callable
5,403.8	334.9	5,068.9

IDA

As IDA concessional financing does not generate a financial return, its operations are underwritten entirely from donor contributions, loan fees and repayments of principal on its outstanding loans, as well as allocations from IBRD net income. To meet Canada's $690.4-million obligation under IDA13, the Government will issue demand notes in fiscal years 2002–03, 2003–04 and 2004–05, each valued at $230.1 million. The note for 2002–03 was fully encashed on February 28, 2003. The note for 2003–04 has not been cashed to date. The remaining notes will be encashed in the years that they are issued.

Canada's Contribution to IDA13 (July 2002–June 2005)	Canada's IDA13 Donor share	Canada's IDA13 Voting Share
(in millions of Canadian dollars)	(per cent)	(per cent)
690.4	3.75	2.96

Canada's Priorities at the World Bank

Canada's positions are based on our international development goals and foreign policy priorities and on our strong interest in maintaining the financial integrity of the World Bank and its operations.

Poverty Reduction and Human Development

Canada has long been a key player in international efforts to assist the poorest and strongly supports poverty reduction as the overarching objective of the World Bank. As such, Canada endorses the Poverty Reduction Strategy Paper process, under which developing country governments develop and implement broad-based poverty reduction strategies in partnership with the donor community. The Bank has increasingly recognized that poverty reduction cannot be addressed in isolation. Private sector development, good governance, strengthening public expenditure management and the monitoring of non-productive expenditures (especially military), external debt and environmental sustainability are just a few of the factors that need to be considered in designing strategies to help improve the living standards of the poor. In the case of small states, the Bank has to take into account additional factors of economic and physical vulnerability and limited capacity.

Canada strongly supports the Bank's efforts to increase the prominence of social sector issues in macroeconomic stabilization programs. Good macroeconomic policy is key to boosting growth and reducing poverty. At the same time, adequate attention to social issues must be an essential part of macroeconomic stabilization and sustainable development goals.

In 2003 the Bank' s Executive Board approved an Infrastructure Action Plan to revitalize the Bank's work in this area. The action plan signals management's commitment to infrastructure and the recognition that intensified engagement in infrastructure is essential to begin to address the vast unmet needs for infrastructure service delivery. Infrastructure service delivery is a key to economic growth and poverty reduction, as well as the Millennium Development Goals. The Infrastructure Action Plan will guide the Bank Group's infrastructure business for the next two to three years. Responding to recent trends—notably the decline in private investment in infrastructure in developing countries—requires further evolution of the Bank Group's business model. The overarching premise will be to ensure efficient, affordable and sustainable delivery of infrastructure services by leveraging funds from the entire spectrum of public and private sources, supported by IBRD, IDA, IFC and MIGA products.

Canada's Voting Record

World Bank Executive Board decisions are traditionally taken on a consensus basis, without resorting to a formal vote. On occasion, however, individual Executive Directors have been unable to join the Board consensus. In 2003 the Canadian Executive Director opposed IFC investments in steel projects in Bulgaria and Algeria. In June 2003 the Canadian Executive Director abstained on management's proposal to increase staff compensation in 2004 by an average of 5.8 per cent. In August 2003 the Honourable John Manley, as Governor representing Canada on the World Bank Board of Governors, opposed a proposed 3.5-per-cent increase in remuneration for World Bank Executive Directors as it was above the rate of inflation for the Washington area.

Education

Canada considers education to be a critical factor in development and strongly supports recent efforts by the Bank to increase support to this sector. Commitments to education in FY 2003 amounted to US$2.3 billion, up from US$1.4 billion in FY 2002, an increase of 70 per cent. The Bank also provides important non-lending support for education through its analytic and policy advisory work. The Bank has also focused heavily on girls' education. Guinea provides a good example of the progress that can be made. With the support of Bank financing, Guinea has been able to expand girls' enrolment in primary school by 12 per cent annually since 1991. This was achieved despite a very weak macroeconomic environment.

Canada has worked in collaboration with the Bank and other agencies in support of the Education for All (EFA) Initiative. The Minister of Finance reinforced Canada's support for EFA in statements to the World Bank-IMF Development Committee.

Canada strongly supports the Bank's efforts to develop a "fast-track" initiative to assist countries with good education strategies. The fast-track initiative (FTI) was developed by the Bank, in close cooperation with a special G-8 Education Task Force, and it was endorsed by Development Committee members in April 2002. Bilateral donors have pledged US$200 million in support for primary education for the 2003–2005 period. This additional aid will be directed to 10 FTI countries, including Burkina Faso, Gambia, Guinea, Guyana, Honduras, Mauritania, Mozambique, Nicaragua, Niger and the Republic of Yemen. To date, Canada has pledged C$135 million from 2003–2008 for FTI proposals from Tanzania, Mozambique and Honduras, over and above current commitments.

Development Effectiveness

Ensuring the effectiveness of the Bank's operations has long been a key Canadian objective. This entails more than just reducing costs and saving money. Effectiveness requires selectivity, clear priority setting and efficient service delivery. The Bank needs to operate in those areas where its

assistance can be productively used and where it has a clear comparative advantage. The Bank is exercising greater selectivity by focusing on reforming states and good performers. In the case of IDA credits, allocations are based on performance criteria. In order to monitor country performances in a meaningful manner, the Bank is focusing on incorporating poverty-related outcome indicators to measure real results, including such indicators as child malnutrition and child and maternal mortality.

The Bank continues to strengthen its efforts to improve development effectiveness through a renewed emphasis on the quality of its project portfolio. More vigilance is now exercised at the project preparation and supervision stages, and this has led to an improvement in the number of projects that are meeting their development objectives. For FY 2003 the Operations Evaluation Department (OED) estimated that 83 per cent of Bank projects had satisfactory ratings in terms of meeting their development objectives. This represents a steady increase since 1997, when only 73 per cent of projects were rated satisfactory. Recent OED evaluations point to a particular improvement in the performance of projects in Africa, following a determined effort by Bank management to improve project management.

Coordination and harmonization of programs is another critical element of effective development assistance. The World Bank, together with other multilateral development banks and the Organisation for Economic Co-operation and Development/Development Assistance Committee, co-sponsored an international forum on harmonization in February 2003. The bulk of the international donor community, as well as 30 developing nations, participated in the forum to produce the Rome Declaration on Harmonization. The Declaration sets out an ambitious program of activities to ensure that harmonization efforts are adapted to the country context and that donor assistance is aligned with the recipient's priorities. The Declaration also promotes country-led efforts to streamline donor procedures and practices, and urges the adoption of policies, procedures and practices to ease harmonization. The harmonization focus has now shifted to in-country implementation. Fourteen countries have stepped forward to initiate harmonization efforts to join three pilot projects supported by the Bank.

Gender Issues

Canada actively promotes gender issues as a priority for World Bank operations. World Bank lending in almost all sectors includes activities that specifically benefit women and girls. Following a review of its gender strategy, management committed to integrate gender issues into Bank Country Assistance Strategies and to work with developing countries and external partners to identify appropriate strategies to promote gender equality. In 2001 the Bank published a major policy research report, *Engendering Development—Through Gender Equality in Rights, Resources, and Voice*. The report, which informs the Bank's gender strategy, concluded that there is strong empirical evidence that gender inequalities tend to slow development, while gender equality helps to lower infant mortality, improve nutrition, and

lower fertility and HIV/AIDS transmission rates. CIDA continues to work closely with the Bank to improve the Bank's capacity in gender equity issues. To expand the exchange of knowledge with its development partners, the Bank provides a number of statistical indicators on gender on its Web site.

Private Sector Development

The private sector plays an important role in virtually all development challenges, from protecting the environment to assisting in privatization in transition economies. Canada has maintained that the Bank Group's fundamental priority for private sector development is to create an enabling environment for investment and sound regulatory frameworks for the private sector to develop in a sustainable fashion. In 2001 the Bank Group began consultations with governments, the private sector, NGOs and multilateral agencies on a private sector development strategy. Based on this consultative process, the Bank Group's Private Sector Development Strategy was formally endorsed by Executive Directors in February 2002. The strategy relates to two broad themes: extending the reach of markets and improving the delivery of basic services. The key elements of the strategy include fostering a sound investment climate; providing direct support for private firms; supporting private participation in infrastructure; increasing the role of the private sector in assisting public sector efforts to achieve universal and affordable access to social services; and creating a new approach to more effectively target subsidies to the poor to improve service delivery. Canada has encouraged this increasingly coordinated approach to private sector development.

In 2003 the Bank published a report on regulatory environments in its member countries. Entitled *Doing Business in 2004*, the report will become an annual exercise. The project aims to motivate reforms through country benchmarking. The World Bank reports that this practice has been a powerful motivator for mobilizing society to demand improved public services, enhance political accountability and encourage better economic policy. In addition, this report has the objective of informing the design of reforms. Incidentally, this report rates Canada very favourably, in all categories, as a place to establish and conduct a business.

In FY 2003 the IBRD and IDA together committed US$2,958 million in lending in support of financial and private sector development. An important example of the private sector's role in development is the growing impact of microfinance operations (relatively small loans made to the poor by grassroots organizations such as the Grameen Bank in Bangladesh). With a small investment, these organizations have been successful in improving the living conditions of the poor—particularly women—in developing countries. Evidence from these operations is compelling; it shows that the poor can be very good entrepreneurs as well as very good credit risks.

The Consultative Group to Assist the Poorest (CGAP), which includes the Bank, Canada, 25 other multilateral and bilateral donors and two private organizations, was established in 1995 to support the development and expansion of sustainable institutions that provide microfinancing services to the poor. In September 2002, CGAP members renewed the Group's mandate for a third term (from 2003 to 2008).

Microfinance: The Consultative Group to Assist the Poorest

Microfinance is an important development instrument in the world's poorest countries. In FY 2003, CGAP spent US$15.2 million to expand microfinance operations in the world's poorest countries. Canada strongly supports CGAP efforts to expand microfinance. CGAP moved into its third five-year phase in July 2003.

CGAP's third phase will centre on the following four strategic priorities:

- fostering a diversity of financial institutions that serve the poor;
- facilitating the poor's access to a wide range of flexible, convenient financial services;
- improving the availability and quality of information on the performance of microfinance institutions; and
- promoting a sound policy and legal framework for microfinance.

CGAP will work in each of these four strategic areas by providing technical assistance; developing and setting standards; advancing knowledge and information sharing; and offering training and capacity-building services together with other actors.

More information on CGAP is available on the Web at www.cgap.org.

Good Governance and Anti-Corruption

Canada is an advocate of strong Bank support for improved public and corporate sector governance. Over the past decade governance has been mainstreamed into the Bank's adjustment and investment lending, and more recently into its country analytical work.

The Bank's governance strategy, *Reforming Public Institutions and Strengthening Governance*, stresses the need for the Bank to strengthen its tools for evaluating the quality of a country's institutions and for assessing a country's readiness to initiate specific governance reforms. The Bank's Public Expenditure Reviews and Financial Accountability Assessments in individual countries will focus increasingly on institutions responsible for budget decision making and implementation, while the more recently introduced Institutional and Governance Reviews will facilitate institutional analysis in other areas of public sector reform. In FY 2003 the Bank produced over 150 separate reviews, studies and analytical products in support of these reforms. This constitutes nearly one-fifth of the Bank's "knowledge" products.

Since 1997 anti-corruption activities have been integral components of the Bank's public sector management portfolio. The Bank has mainstreamed anti-corruption issues into its Country Assistance Strategies. The Bank has amended its procurement guidelines to strengthen the procedures for disqualifying bidders, temporarily or permanently, from future Bank-financed projects if it finds evidence of fraud or corruption. Since the inception of its anti-corruption policy, the Bank has debarred 134 firms or individuals from

receiving Bank contracts because of their involvement in corruption or the misuse of Bank funds. In FY 2003, 56 companies or individuals were debarred from benefiting from contracts under World Bank-financed projects. In addition, the Bank issued five letters of reprimand to companies or individuals doing business under Bank-financed contracts.

For many of the world's poorest countries, where governance problems remain endemic, bilateral development cooperation agencies have been reducing aid flows. Moreover, IDA's performance-based allocations also reduce World Bank concessional financing to these countries. Many of these countries, increasingly referred to as Low-Income Countries Under Stress (LICUS), are becoming marginalized from development assistance programming. Recognizing that engagement with the international community can promote reform, following a review of the Bank's LICUS strategy, Executive Directors approved the establishment of a special LICUS Implementation Trust Fund in January 2004 that will be used to finance small demonstration projects aimed at improving governance and at strengthening institutional capacity. In March 2004 World Bank Governors approved the transfer of US$25 million from the Bank's surplus account to the LICUS Implementation Trust Fund. In cases where LICUS government structures are particularly weak, Trust Fund financing will be delivered through NGOs.

In its efforts to promote better governance practices, the World Bank Institute has established close working relations with the Parliamentary Centre in Canada and with international organizations.

Environmentally Sustainable Development

The Canadian government, alongside Canadian civil society, has long been a vocal advocate of the need for the Bank to better integrate environmental considerations into its operations. Along with gender, this is an area that could be more strongly emphasized in Country Assistance Strategies and World Bank assessments of PRSPs. The Bank has estimated the economic costs of environmental degradation in many developing countries to be, on average, in the range of 4 to 8 per cent of GDP. Under its environmental strategy, the Bank is moving to improve its environmental safeguard system and to mainstream environmental policies and issues into its loan and policy dialogue work. The Bank also works closely with clients to help them introduce and implement their own environmental safeguard systems to help them manage their resources more sustainably.

While the Bank is mainstreaming environmental considerations into the broad range of its operations, the number of direct environmental investments it supports varies from year to year. In FY 2003 the share of overall Bank lending directed to environmental and natural resource management increased to 6 per cent from 5 per cent in FY 2002.

The Toronto Centre

Recognizing the need to strengthen financial sector regulation and supervision internationally, in 1997 the Government of Canada, the World Bank and the Schulich School of Business at York University established the Toronto International Leadership Centre for Financial Sector Supervision. The Toronto Centre provides experience-based training for senior bank and insurance supervisors and securities market regulators, putting them in a stronger position to fulfill their responsibilities and thereby reducing the severity and frequency of financial crises. It focuses on the leadership dimension of the supervisory function, offering pragmatic programs based on the premise that experience is the best teacher. The Toronto Centre has trained 900 senior public servants from more than 115 countries.

The Toronto Centre works with a number of partners to deliver programs in various parts of the world. Joint programs are delivered with the Financial Stability Institute in Basel and with a number of regional organizations in Asia, Latin America, Southern Africa, and Central and Eastern Europe. In 2002 the Centre embarked on an initiative to offer capacity-building programs for senior executives and management development programs for middle management in individual country agencies.

The Bank provided US$1.25 million in funding to the Toronto Centre from 1998 through 2000. The IMF has contributed US$1.4 million since 2000 and also provides support in kind. The Bank for International Settlements provided US$500,000 over the 2000—2002 period. Canadian funding for the Toronto Centre has been provided by CIDA and amounts to C$5 million to date. As well, the Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, the Royal Bank of Canada and TD Canada Trust contributed to the initial round of funding. In addition, support for individual projects has been received from USAID, the Government of Singapore, the Financial Technology Transfer Agency (ATTF) Luxembourg, the Inter-American Development Bank, and the multi-donor Financial Sector Reform and Strengthening (FIRST) Initiative. The Office of the Superintendent of Financial Institutions has provided support from the beginning and it remains a major contributor to the work of the Toronto Centre.

The Toronto Centre can be reached through its Web site at www.torontocentre.org.

The Bank has been particularly active in the area of climate change. As an implementing agency of the Montreal Protocol's Multilateral Fund, the Bank supports projects in 18 countries and has committed US$479 million in financing since 1991 for some 785 projects to assist enterprises in developing countries convert to ozone-friendly technologies.

Many developing countries face daunting water resource challenges as the needs for water supply, irrigation and hydroelectricity grow. As a consequence, there is a high and increasing demand for World Bank

engagement. Accordingly, the Bank articulated its strategic directions for the water sector in a paper published in February 2003. As a result of this strategy, Bank investment in the Water, Sanitation and Flood Protection sector more than doubled in FY 2003 to 7 per cent of overall lending from 3 per cent in 2002. Overall, lending for water resources development and water-related services accounted for 16 per cent of World Bank lending over the past decade.

Together with the United Nations Development Programme and United Nations Environment Programme, the Bank is an implementing agency of the Global Environment Facility (GEF). Through the GEF, the Bank supports projects in four key areas: climate change, biodiversity conservation, phase-out of ozone-depleting substances and protection of international waters. The World Bank has co-financed US$175.9 million worth of GEF projects.

The World Bank continues to strengthen its approach to ensuring sustainable development. Safeguard policies are a subset of World Bank operational policies that require that potentially adverse environmental and social impacts of Bank investment projects should be identified, avoided or minimized where feasible, and mitigated and monitored. Bank management first articulated the concept of safeguard policies in 1997 to stress the importance of this specific set of operational policies for achieving its environmental and social objectives and enhancing the quality of its operations. 2003 saw a strengthening in the implementation of safeguard polices. For example, 83 per cent of the new investment lending (in volume) has been submitted to varying levels of

World Development Report 2004: Making Services Work for Poor People

The 2004 *World Development Report* (WDR) provided a useful analysis of how improvements in service provision to the poor could make an important contribution to meeting the Millennium Development Goals (MDGs). The report's emphasis on accountability, transparency and client-centred approaches, the importance of community-driven development, empowerment, public expenditure management and governance build on key features included in the Monterrey Consensus.

A key message of the 2004 WDR is that aid effectiveness is as important as, if not more important than, aid volume. Increased resources are necessary, but not sufficient to meet the MDGs and poverty goals—resource use is crucial to the effectiveness of services. Many lessons are drawn in the report that can contribute to improving aid delivery, including through untying aid, better-targeted resources and the harmonization of practices by donors.

The 2004 WDR is available on-line at www.worldbank.org.

environmental assessment. In addition, disclosure of safeguard documents has increased now that the application of the Policy on Disclosure of Information is fully mainstreamed. The higher number of projects subject to environmental scrutiny, and the larger number of documents disclosed, reflect the increased mainstreaming of environmental and social concerns in the Bank's lending portfolio.

Trade and Development

Canada recognizes that the capacity of small nations, emerging economies and other developing countries to participate effectively in the global trading system is an important component of a comprehensive approach to growth and poverty reduction. Canada has stressed the need to incorporate trade sector capacity building in Bank Country Assistance Strategies and nationally developed Poverty Reduction Strategy Papers.

The objectives of the Bank's work in the trade area cover three distinct but complementary areas:

- at the global level, promotion of change in the world trading system to support development, including activities to promote a pro-development Doha outcome and work with bilateral agencies and NGOs to promote the trade and development agenda;
- at the regional level, promotion of effective cooperation, through both analytical work and active support for cross-cutting issues such as standards and trade liberalization; and
- at the national level, promotion of trade issues in country strategies, including targeted country analysis and technical support.

The failure of Ministers to reach an agreement at the World Trade Organization Cancun Ministerial in September 2003 presented a daunting challenge to the international trading system. In the wake of this failure, the World Bank pledged to continue aiding developing countries to increase their capacity to participate in world trade. Such assistance will finance government trade reform programs, including income maintenance, worker retraining, investments in ports and roads, and reform of trade-related institutions. As the Doha agreement begins to take shape, the Bank will work with countries to quantify ways they might be affected individually, and help tailor reform programs to their needs if requested. The Bank will also continue to play a strong advocacy role for developing countries on trade issues.

In addition, the Bank is working with five other institutions in the context of the Integrated Framework for Trade-Related Technical Assistance (IF).[8] The IF has evolved into an important vehicle for mainstreaming trade issues into least developed country development strategies in a coordinated fashion,

[8] The other participants in the IF are the IMF, the International Trade Centre, the United Nations Conference on Trade and Development, the United Nations Development Programme and the World Trade Organization.

with the World Bank playing the role of lead institution. The Bank's intellectual and financial commitment to this project is critical to the success of the IF in both the short and long term. Canada is a strong supporter of the IF and, in addition to providing policy advice, contributed C$1 million to the IF Trust Fund. Canada is also one of two donor representatives on the IF Working Group and as such is a full partner with the six agencies in setting future directions for the IF.

Transparency and Accountability

Recognizing that transparency and accountability are fundamental to ensuring the longer-term sustainability of the Bank Group's operations and that the "demonstration effect" of the Bank's own policies is important for developing country governments, Canada has been a major proponent of increased openness at the Bank. Canada and other donors have pushed the Bank and borrowing countries to improve consultations with local people—civil society organizations (CSOs) and NGOs—in borrowing countries, not only in the design and implementation of projects but also in the preparation of key policy documents, such as Country Assistance Strategies. The Bank has responded to concerns from shareholders by making public a growing number of documents. Following extensive Bank consultations with governments, civil society, the private sector and the media, the Bank's revised disclosure policy came into effect in January 2002.

Under this policy, the Bank now discloses to the public:

- documentation outlining key actions supported by a Poverty Reduction Support Credit following loan approval by Executive Directors;
- program documents for other adjustment loans, with the consent of the borrower, following Executive Board approval of the operation;
- a broad range of Operations Evaluation Department reports after they have been released to Executive Directors;
- environmental safeguard assessments for all projects before project appraisal begins;
- concluding remarks of the Executive Board chair on Country Assistance Strategies, Transitional Support Strategies and CAS Progress Reports that are themselves disclosed;
- concluding remarks on policy and strategy papers on a case-by-case basis; and
- archived documents after 20 years (or five years for types of documents now routinely disclosed).

Substantial headway was made during the 13th IDA replenishment negotiations in expanding transparency and policy dialogue with borrowers and civil society. For the first time six representatives of IDA borrowers participated in formal discussions of the IDA policy framework. IDA donors also decided to release all of their background policy discussion papers to the public in draft form and took the unprecedented step of seeking public comment on their draft report, which defines the IDA13 policy framework.

Discussions are underway amongst Bank shareholders on a timetable for the publication of individual country ratings under the annual IDA exercise to assess economic, social and governance indicators of IDA countries. It is anticipated that these country ratings will be released to the public at the outset of the IDA14 replenishment period in 2005.

Transparency also requires better consultation with those affected by projects that the Bank supports. Under President James Wolfensohn, the Bank was the first multilateral organization to establish an independent panel to consider outside complaints. Any group that may be affected by a Bank-supported project has the right to request that the panel investigate whether the Bank has abided by its policies and procedures. Canada has been one of the major supporters of the work of the Inspection Panel. In 2003 the Inspection Panel received one new request for inspection relating to the Manila Second Sewerage Project in the Philippines. The requesters claim to be adversely affected by one component of the Manila Sewerage Project. The claimants allege that, in accordance with World Bank policy, "key questions raised by various sectors that would be potentially affected by the project have not been adequately addressed." On this issue, the committee was unable to make any recommendation due to the failure of the claimants to follow the correct procedure, whereby they first bring the problem to management's attention and give management an opportunity to adequately respond to the complaint.

The Bank engages with civil society across a broad range of activities, including providing input for poverty assessments, national environmental action plans and other key Bank analytical tools. Particular emphasis has been placed on expanding partnerships with outside groups as more Bank operations are framed in the context of Poverty Reduction Strategy Papers, which embody participatory approaches at the macro level. CSO and NGO representatives from developing countries are now consulted regularly in the preparation of Bank Country Assistance Strategies. Information on the participation of CSOs and NGOs is now included in Bank project appraisal documents.

The NGO-World Bank Committee, a formal mechanism for policy dialogue established in 1982, has evolved into the World Bank-Civil Society Thematic Forum, which will convene a broader range of CSOs, including representatives from NGOs, trade unions, community organizations, small farmers' groups, religious institutions and women's organizations.

Within Canada NGOs have participated in a regular series of government meetings and conferences on such issues as multilateral debt, the environment, IDA and Africa. The Canadian government has benefited greatly from the expertise and advice offered by Canadian NGOs on a broad range of development issues. Through this collaborative process, the views of Canadian NGOs have helped shape Canada's position in Bank project and policy discussions.

The World Bank's Business Plan and Administrative Budget

Recognizing that its corporate planning needs to be more closely aligned with efforts to achieve the Millennium Development Goals, the Bank has moved to a three-year budgetary and corporate-planning cycle. In June 2003, Executive Directors approved a net FY 2004 administrative budget of US$1,438.3 million, representing a nominal increase of some 6 per cent over the approved budget for FY 2003. Given growing resource pressures and the need for the Bank to prioritize its operations, Executive Directors recently have increased their focus on the Bank's strategic planning and budgetary processes. Executive Directors' offices are now involved much earlier in the budget formulation process than they have been in the past.

FY 2003 IBRD Financial Results

As a development institution, the IBRD does not maximize profit. Instead, it aims to earn a return on its assets that is sufficient to ensure its financial strength and sustain its development activities on an ongoing basis. The IBRD usually earns a net return on its assets of about 1 per cent per annum. In FY 2003 the IBRD managed to achieve a net return on assets of 2.1 per cent. The IBRD's main financial risk rests with the credit quality of its disbursed loan portfolio. At the end of FY 2003 the IBRD's equity-to-loans ratio, which is a summary measure of the institution's risk-bearing capacity, was 26.6, compared to 22.9 in FY 2002. These levels are considered sustainable.

Principal and charges totalling US$629 million from four IBRD borrowers[9] were recorded in "non-accrual" status at the end of FY 2003. No IBRD borrower entered into non-accrual status during the fiscal year. During FY 2003 the IBRD held provisions equivalent to about 3.5 per cent of its outstanding loan portfolio against anticipated losses. The Bank follows very conservative investment and hedging policies. In FY 2003 the IBRD raised US$18.8 billion, before swaps, in medium- and long-term debt on international capital markets to fund its operations. This was US$3.25 billion lower than in FY 2002. All proceeds from new funding are initially invested in the IBRD's liquid asset portfolio until they are required for IBRD operations. The IBRD strategically repurchases, calls or prepays its debt to reduce the cost of borrowing and to reduce the exposure to refunding requirements in a particular year or to meet other operational requirements. In FY 2003 the IBRD repurchased or called US$6.3 billion of its outstanding borrowings (net of unamortized discounts, premia and issuance costs). The IBRD enters into currency and interest rate swaps to convert US dollar and non-US dollar fixed-rate borrowings into US dollar variable rate funding for its loans. The IBRD does not enter into derivatives for speculative purposes.

The process and procedures under which the IBRD manages its financial risk profile continue to evolve as its activities change in response to market, credit, product and other developments. The Executive Board and its Audit

[9] Iraq, Liberia, Seychelles and Zimbabwe.

Committee periodically review trends in the IBRD's risk profiles and performance as well as any significant developments in its risk management policies and controls.

Allocation of FY 2003 Net Income

IBRD net income supports its development objectives. In July of each year Executive Directors recommend to Governors specific allocations from the previous year's net income. IBRD "allocable" net income, after reserves and interest waivers, was US$640 million in FY 2003. In addition to providing funding for IDA operations and heavily indebted poor country (HIPC) debt reduction, net income allows the IBRD to respond to unforeseen humanitarian crises and to provide grants, from time to time, for other development causes. Governors approved allocations from FY 2003 net income of US$300 million to IDA, US$240 million to the HIPC Trust Fund and US$100 million to the Bank's Surplus Account.

How to Access Information at the World Bank

The World Bank's Public Information Centres, in Washington and in many of the Bank's regional offices, provide a wide range of Bank documents, including:

- project information documents;
- project appraisal documents (after approval by the Board of Executive Directors);
- country economic and sector work documents and sectoral policy papers;
- the annual report and the *World Development Report*;
- *Monthly Operational Summary* and *International Business Opportunities*;
- environmental data sheets, assessments, analyses and action plans;
- *World Debt Tables* and *Global Development Finance*; and
- Operations Evaluation Department précis.

These materials and a variety of World Bank and World Bank Institute special studies are available through the Bank's InfoShop located at:

1776 G Street N.W.
Washington, DC 20433, USA
Phone: (202) 458-5454
Fax: (202) 522-1500
E-mail address: pic@worldbank.org

Additional up-to-date information is also available on the Internet at www.worldbank.org/html/pic/PIC.html.

Managing Canada's Interests at the World Bank

Finance Minister Ralph Goodale, as Canada's Governor at the World Bank, is responsible for the management of Canada's interests at the Bank. Minister Goodale exercises his influence through exchanges of views at the Development Committee and annual meetings of the Board of Governors of the Bank, and through discussions with the President of the Bank. Within the Development Committee, Minister Goodale represents the interests of Canada and all other members of the Canada/Ireland/Commonwealth Caribbean constituency.

The Department of Finance consults closely with CIDA and the Department of Foreign Affairs and International Trade (DFAIT) in formulating Canadian policies related to Bank issues. Paul Thibault, the President of CIDA, is Canada's Alternate Governor for the World Bank.

Governors have delegated decision making for a wide variety of day-to-day operational, policy and administrative matters to the Bank's Executive Board. The Executive Board formally approves all loans, credits, projects and World Bank policies, discusses Country Assistance Strategies and provides strategic advice to Bank management as appropriate. Of 24 Executive Directors on the Board, 12 are from developing and transition countries and 12 from developed countries. Marcel Massé, who was elected Executive Director in September 2002 by constituency Governors, represents Canada and the 12 other members of the constituency.

Canada's Office at the World Bank

One of the key roles of the office is to provide advice and assistance to Canadian individuals and businesses on doing business with the Bank. Over the past two decades, the Executive Director's office has helped introduce roughly 1,000 Canadian businesses to such opportunities through seminars and workshops held across the country and by organizing direct contacts in Washington. Beyond its formal work, the office provides a valuable bridge between the Bank and Canadian constituents—individuals, NGOs, federal and provincial agencies, associations, the academic community and parliamentarians, among others.

In addition to the Canadian Executive Director's office, the Canadian Embassy in Washington has established an Office for Liaison with International Financial Institutions that can advise Canadians on how to participate in Bank-financed projects. The office can be reached at (202) 682-7719.

Another point of contact for Canadian businesses is the Bank's Business Web page at www.worldbank.org/opportunities. Canadian firms, organizations and institutions that are interested in pursuing opportunities created by Bank-financed projects should consult the Bank's Web site on a regular basis. Information on CIDA's cooperation with and support for World Bank and World Bank-supported programs can be found at www.worldbank.org/canada.

Organization of the Office

The Executive Director is supported in his daily work by a Caribbean Alternate Executive Director, three senior advisors (two Canadian and one Irish), three advisors (two Canadian and one Caribbean) and three locally hired administrative staff. The office works closely with the Canadian government—particularly with the Department of Finance, CIDA and DFAIT. The Department of Finance coordinates Canada's policy advice and channels it to Canada's Executive Director, and through him to World Bank management.

Structure of the Executive Director's office:

Executive Director	Marcel Massé (Canada)
Alternate Executive Director	Gobind Ganga (Caribbean)
Senior Advisor	Grant Cameron (Canada)
Senior Advisor	François Pagé (Canada)
Senior Advisor	Donal Cahalane (Ireland)
Advisor	Stephen Free (Canada)
Advisor	Hieu Tom Bui (Canada)
Advisor	Lisaveta Valantina Ramotar (Caribbean)
Executive Assistant	Monique Piette
Program Assistant	Monica Morris
Team Assistant	Danielle Pierre
Phone/fax	(202) 458-0082/(202) 477-4155
Address	MC-12-175, 1818 H Street N.W. Washington, DC 20433, USA mmasse@worldbank.org mpiette@worldbank.org

Canadian Procurement at the World Bank

Canadian firms benefit from Canada's World Bank membership by accessing procurement opportunities under World Bank-financed loans. Canadian expertise in the power, environmental, engineering, public service reform, health, education, financial and transportation sectors has led to procurement opportunities for Canadian firms for developing country projects around the globe. In FY 2003 Canadian companies provided US$139 million in goods and services under Bank-funded projects with, as in past years, consulting services accounting for approximately half this amount. For example, Terasen International Inc. undertook a detailed study of the regional energy market in Kamchatka under a US$450,000 World Bank-funded technical assistance project with the Government of the Russian Federation and the administration

of the Kamchatka Region. EDUC-INTER Inc., a Montréal-based consulting firm active in education and training since 1996, recently obtained a US$500,000 contract with the World Bank in the education sector. This contract demonstrates how Canadian expertise in applying information technology can foster a better relationship between education and employment. Dévelopment International Desjardins, Cowater International and the Montréal-based International Civil Aviation Organization also gained World Bank financing to provide technical assistance to developing countries.

Canadian companies such as Tecsult International, CIMA International, Intelcom Research Consulting, R.J. Burnside International Ltd. and Dillon Consulting were successful in gaining financing from the World Bank in 2003 for various consulting services.

Canada Mortgage and Housing Corporation obtained a contract valued at almost US$4 million to provide mortgage finance technical assistance to the Government of Algeria, while other Canadian companies, such as Systeq Instruments of Canada Inc., RPM International Ltd. and Trans Canada Turbines, won contracts to supply various goods for World Bank-financed projects. The Executive Director's office collaborated with several institutions and government agencies to promote business opportunities with the Bank. Through their participation in Canada in several events and conferences such as International Development Days, the Annual Meeting of the Saskatchewan Trade and Export Partnership and special events organized by the World Trade Centre in Montréal, Toronto and Halifax, World Bank representatives provided information to the Canadian private sector on how to do business with the Bank.

Trust Fund Activities

Consultant trust funds (which, in Canada's case, are financed by CIDA and administered by the Bank) are a significant source of funds for identifying and preparing Bank projects, programs or analytical work focused on poverty reduction. These trust funds are intended to support the participation of Canadian consultants with limited prior involvement in activities funded by the Bank. In FY 2002 the Board of Directors approved a package of reforms for consultant trust funds which simplify and standardize existing eligibility criteria. These reforms have resulted in new standardized consultant trust fund framework agreements for all donors. The changes strengthen the alignment of the consultant trust funds with the Bank's overall strategic development priorities and resource-planning processes. They also improve management and strengthen oversight of the consultant trust funds. The Bank introduced a 5-per-cent fee for its administration of these funds.

CIDA's framework agreement with the Bank, signed in June 1995, governs all of its other trust fund arrangements with the Bank, the World Bank Institute and the Global Environment Facility. These overall trust fund programs include trust funds for persistent organic pollutants (C$20 million), the Prototype Carbon Fund (US$10 million), the Public-Private Infrastructure

Advisory Facility (C$800,000) and the Cities Alliance (C$400,000). CIDA has established a separate C$5-million trust fund with the World Bank Institute that enables the organization to engage Canadian expertise in the preparation and delivery of its training programs in countries eligible for Canadian Official Development Assistance. Allocations are made annually to five or six World Bank Institute programs, based on their compatibility with Canadian development assistance priorities.

International Finance Corporation

The International Finance Corporation (IFC), created in 1956, supplements the activities of the IBRD and IDA by providing financing on commercial terms for productive private sector enterprises that lack access to private capital markets. The institution is the largest multilateral source of loan and equity financing for the private sector in the developing world. The institution provides both loans and equity investments; loans represent 75 per cent of the IFC's disbursed portfolio. Through its co-financing arrangements, it leverages substantial private financing for development purposes. By investing alongside the IFC (as Canadian financial institutions have done since the mid-1990s through their participation in the IFC loan syndication program) investors gain valuable access to potential new customers, attain a high-yielding asset and, given the IFC's good relations with developing country governments, benefit from a degree of implicit political risk coverage.

In FY 2003 the IFC signed investment commitments totalling US$5.03 billion for 204 projects in the developing world, compared to US$3.6 billion in FY 2002. Of this amount, US$1.2 billion was mobilized through loan syndications, compared to US$518 million in FY 2002. Of the US$3.9 billion of the IFC's own financing, US$2.6 billion was provided in the form of loans, US$429 million in the form of other types of guarantees and risk management products, US$712 million as equity investments and quasi-equity investments, and US$106 million for risk management products. The IFC earned net income of US$487 million in FY 2003, compared to US$215 million in FY 2002.

While the bulk of the IFC's financing is provided to middle-income countries, the institution is increasingly targeting frontier markets (countries such as those in Africa, traditionally of little interest to private investors). Canada supports this stronger focus on frontier markets, while recognizing the difficulties posed by higher business costs and financial risks.

Canada supports a number of technical assistance programs through the IFC's Technical Assistance Programme, which was instituted in 1988 and manages technical assistance programs funded by bilateral and multilateral donors. At the end of FY 2003 the program comprised 40 trust funds that focused on frontier markets, high-impact sectors and small and medium-sized enterprises. In addition to its consultant trust funds with the IFC, CIDA has also provided funding for the South East Europe Enterprise Facility, the Mekong Project Development Facility, the Private Enterprise Partnership and the Foreign Investment Advisory Service.

Canada maintains a 3.45-per-cent share of IFC capital. It has paid-in US$81.3 million to the IFC's capital stock. Given the risks associated with its financial operations, all of the IFC's authorized capital is paid-in.

Canada's Financial Participation in the IFC

	Subscriptions	Voting Power
Total	(% of total)	(% of total)
US$81.3 million	3.45	3.39

Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to encourage foreign investment in developing countries by providing viable investment insurance against non-commercial risks (e.g. expropriation, transfer restrictions, breach of contract, and war and civil disturbance), thereby improving or creating investment opportunities. MIGA's Canadian clients include Barrick Gold Corporation, Hydro-Québec International and The Bank of Nova Scotia.

In FY 2003 MIGA approved 59 guarantees totalling US$1.4 billion for 37 projects, of which 19 were in IDA-eligible countries. IDA-eligible countries also benefited in 2003 from 35 MIGA technical assistance efforts. MIGA estimates that its guarantees facilitated US$3.9 billion in foreign direct investment. During FY 2003 MIGA also increased its support for investors from developing countries: it supported 12 investments made between developing countries.

Canada's Financial Participation in MIGA

	Subscriptions	Voting Power
Total	(% of total)	(% of total)
US$56.535 million	3.29	2.90
Of which paid-in $10.732 million		
Of which callable $45.803 million		

Future Challenges

That millions of the world's poorest are unable to share in the benefits of globalization is both an economic and moral issue, and has made development a prominent theme of G-7/G-8 meetings and of policy discussions in other multilateral fora (e.g. in the UN system, regional summits and World Trade Organization negotiations). Effective use of scarce resources is central to international discussions of development issues. At the International Conference on Financing for Development in March 2002, developed and developing country leaders agreed that more must be done to channel resources in support of development and that, for their part, developing countries have a responsibility to ensure that these resources are used effectively. Donors, conscious of the uneven results of decades of Official Development Assistance, want to ensure that scarce assistance resources produce measurable results. This requires stronger efforts by developing countries to create sound policy and institutional environments. The Bank, as the world's largest provider of development financing, plays a crucial role in providing advisory and financial assistance to countries to help strengthen their economic, social and governance policies. Going forward this will remain one of the Bank's more pressing challenges.

More effective measurement and monitoring of development results is a critical element of the development effectiveness agenda, and Canada will continue to stress the importance of results-based indicators. While the Bank has embarked on a program to improve its results measurement and monitoring, adapting and refining the Bank's results measurement work to different developing country poverty reduction strategies will be a substantial challenge over the medium term.

Recognizing the importance of country-owned development strategies, the major challenge for the future will be to orient the Bank's operations towards those clients which have strong economic and governance frameworks in place and to help convince countries with weak policy frameworks of the need to alter their policies. As the Bank moves increasingly to support nationally owned development strategies, a key challenge will be to work with developing country governments and civil society to ensure that there is sufficient capacity on the ground to develop and implement these strategies. The Bank will also have to work increasingly with other partners, both multilateral and bilateral, on the basis of their comparative institutional strengths, to improve the quality and effectiveness of development assistance within individual countries.

Without careful attention to the unique needs of individual countries, the Bank will be unable to meet its objectives of improving the quality of its operations and strengthening its development impact. Moreover, the effectiveness of the Bank's own operations must be enhanced through closer partnerships with bilateral donors and international organizations. Cooperation with UN agencies, in terms of measuring global and national progress towards the Millennium Development Goals, will be key, given the high operational priority the Bank attaches to helping countries achieve these goals.

The Bank will continue to provide support to developing countries facing a broad range of institutional, economic and social challenges. The Bank's strategy for contributing to capacity building and poverty reduction in LICUS will continue to evolve based on its operational experience. However, the Bank's future challenges are not limited to the world's poorest countries. A majority of the world's poor live in middle-income countries, and over the coming year the Bank will be reviewing its strategy for how best to address the problems facing this particular segment of the world's poorest.

Establishing clear development priorities and being more selective in its operations will be critical to future success. Canada will continue to stress the need for the Bank to be much more selective and transparent in its operations.

Joint Issues

Overview

The IMF and the World Bank are important institutions for Canada, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two Bretton Woods Institutions overlap, or where there is a requirement for close cooperation and coordination of activities. Indeed, at the Halifax Summit in 1995, G-7 leaders asked that efforts be made to increase cooperation and coordination between the IMF and the World Bank. The heads of both institutions have put considerable effort into fulfilling that objective. At the special meeting, Financing for Development, that was held in Monterrey, Mexico, in March 2002, leaders from both the developing and developed worlds asked the Bank and Fund to explore innovative ways to enhance the voice and participation of developing countries in their decision-making processes. Three particular examples—the joint preparation of a proposed program of assistance for HIPCs, Bank/Fund cooperation in addressing financial sector reform and Bank/Fund measures to enhance developing country voice—are examined below.

Enhancing the Voice and Participation of Developing Countries in the Bretton Woods Institutions

Responding to the call at the March 2002 Monterrey special international conference on Financing for Development that the Bank and the Fund find "innovative and pragmatic" ways to enhance the participation of developing and transition economies in their decision-making, Ministers discussed the voice issue during the spring and fall 2003 meetings of the Development Committee of the Boards of Governors of the World Bank and IMF.

At present, there is no consensus among members to alter either the voting structure or the composition of the Executive Boards at the World Bank and the IMF. There is agreement, however, that more needs to be done to address capacity constraints in the offices of developing country Executive Directors at both institutions. There is also agreement that greater attention is needed to deal with the problem of weak capacity within developing country capitals to assess important World Bank and IMF policy issues from a developing country perspective. While Development Committee discussions have underlined that there is no single measure that can be taken to address this issue, the Committee is focusing its attention on a range of measures designed to address these capacity problems.

In April 2003, Executive Directors approved an increase in the professional staff complement of the two Executive Directors representing African countries at each institution. The two institutions are also making greater efforts to involve staff from developing country Executive Directors' offices in their internal training programs. The World Bank has expanded its secure access to Executive Board documents to developing country capitals. Following the September 2003 Development Committee meeting, the World Bank has been developing a secondment program that will expose mid-level developing country officials directly to World Bank operations, with the object of improving their understanding of the Bank's operational and decision-making processes. Separately from the World Bank and IMF, some bilateral donors are working to establish an independent policy advisory unit that developing countries could draw on to seek policy advice on key World Bank and IMF policy issues.

More broadly, the World Bank is moving to enhance developing country influence and participation by increasing its efforts to involve developing countries in the design and formulation of its Country Assistance Strategies and non-lending programs. The Bank is also making greater efforts to focus its Country Assistance Strategies on priorities identified by developing countries themselves in their Poverty Reduction Strategy Papers (PRSPs). Within IDA, donors are making greater efforts to engage borrowers in the regular series of donor meetings convened to discuss operational priorities for the 14th IDA replenishment period (2005–2008).

Strengthening Financial Sectors

Problems in the financial sector, especially the banking system, can disrupt growth and macroeconomic stability and spill over regionally and internationally, as shown by the emerging market financial crises of the late 1990s. In response to concerns about such problems, the IMF and World Bank are devoting increasing attention to financial sector issues. Discussions in both institutions in the past couple of years have focused on how they can assist member countries to establish and maintain sound financial systems.

The special Financial Sector Liaison Committee, composed of senior staff from the IMF and the World Bank, helps ensure effective collaboration between the two institutions on financial sector issues and enhance operational coordination on work in the financial sector in individual countries.

To help identify and evaluate vulnerabilities in financial systems, and assess observance of core principles, standards and good practices by member countries, the IMF and World Bank introduced the joint Financial Sector Assessment Program (FSAP) on a one-year pilot basis in May 1999. All 12 FSAP pilot missions were completed by April 2000. After a review of the experience with the FSAP pilot, the IMF and World Bank agreed to extend the FSAP and expand the coverage to up to 24 countries per year. Over 100 of the IMF's 184 members have either participated in the FSAP or have volunteered to do so in the near future.

Information on financial system standards assessed under the FSAP is used to support Fund surveillance through the Financial System Stability Assessments (FSSAs), which are provided to the Executive Board as background to the Article IV consultation process. The summary assessments of standards contained in FSSAs become the Reports on the Observance of Standards and Codes modules.

The FSSAs include a form of "peer review" in that they are prepared with the participation of outside experts drawn from national supervisory agencies. This represents the operationalization of Canada's financial sector peer review proposal made at the IMF meetings in April 1998.

Canada was the first industrialized country to undergo an FSSA. IMF and World Bank staff and outside specialists from Australia, Brazil, Germany, Sweden and the United States conducted a pilot review of Canada's financial system in October 1999. The results of the peer review were released in the staff report for the 2000 Article IV consultation with Canada. Overall, the assessment found Canada's financial system to be among the soundest in the world (see www.imf.org/external/pubs/cat/longres.cfm?sk=3420.0).

It is important that the Fund continue to help countries with limited resources and administrative capacities implement key codes and standards through the provision of advice and technical assistance. To help this important work, Canada is a founding contributor to the joint IMF/World Bank Financial Sector Reform and Strengthening Initiative, which was launched in the spring of 2002 and provides technical assistance to help countries address financial sector weaknesses identified in FSAPs and Reports on the Observance of Standards and Codes.

The international financial institutions' mandate to strengthen financial systems, promote good governance and fight corruption encompasses the enhancement of a country's capacity to combat money laundering and financial abuse. In 2000, the International Monetary and Financial Committee asked the Fund to explore how to incorporate work on financial abuse,

particularly with respect to international efforts to fight money laundering, into its activities. As a result, in April 2001 the Fund's Executive Board agreed the IMF would take the following steps to enhance the international efforts to counter money laundering:

- intensify its focus on anti-money laundering elements in all relevant supervisory principles, in particular by developing a methodology for enhancing the assessment of financial standards relevant to countering money laundering;
- work more closely with major international anti-money laundering groups;
- increase the provision of technical assistance in this area;
- include anti-money laundering concerns in its surveillance and other operational activities when relevant to macroeconomic issues; and
- undertake additional studies and publicize the importance of countries acting to protect themselves against money laundering.

In addition, the Fund and Bank recognized the Financial Action Task Force 40 Recommendations as the appropriate international anti-money laundering standards and agreed to adapt those Recommendations that are relevant to their mandates. As indicated in the "Strengthening Financial Sectors" section on page 61, it was agreed following the events of September 11, 2001, that the Fund would extend its involvement beyond money laundering to efforts aimed at countering terrorist financing. In this respect, the Fund has added the Financial Action Task Force's 8 Special Recommendations on terrorist financing to the list of standards and codes useful to the operational work of the Fund and has adopted a comprehensive methodology for anti-money laundering and terrorist financing assessments.

Following the recommendation of the Financial Stability Forum, the IMF also agreed to carry out assessments of offshore financial centres (OFCs) to help them identify and reduce vulnerabilities in their financial systems. OFC assessments for 40 jurisdictions have been conducted or are underway. To help provide technical assistance in the Caribbean region, the Fund, in close collaboration with Canada, established the Caribbean Regional Technical Assistance Centre (CARTAC), which became operational in September 2001. Canada is the largest single donor to CARTAC, which is designed to strengthen the region's technical capability in financial sector regulation and supervision, tax administration and other areas.

Multilateral Debt Relief

In September 1996 the IMF and World Bank launched the Heavily Indebted Poor Countries Initiative (HIPC Initiative) to reduce the unsustainable debt burdens of the world's poorest countries. After a review of the HIPC Initiative in 1999, a number of modifications were approved to provide faster, deeper and broader debt relief and to strengthen the links between debt relief,

poverty reduction and social policies. Currently 42 countries are being considered for assistance under the HIPC Initiative. Guyana, a member of Canada's constituency at the World Bank, recently reached its HIPC completion point and has completed the process.

Good progress has been made. As of the end of December 2003, 26 countries were benefiting from debt relief under the HIPC Initiative. Ten of them (Benin, Bolivia, Burkina Faso, Guyana, Mali, Mauritania, Mozambique, Nicaragua, Tanzania and Uganda) have completed the HIPC process and received irrevocable debt relief. Fourteen more are expected to reach the completion point in 2004.[10] These countries will receive over US$40 billion in debt relief under the HIPC Initiative and additional measures, and they will benefit from an average two-thirds reduction in their debt burdens.

With the relatively stronger HIPC cases making good progress, further progress on the overall initiative will require closer examination of how best to bring the remaining six conflict-affected HIPC countries[11] into the process. Their special circumstances could merit flexible treatment. However, many countries emerging from conflict have serious governance problems that could undermine assistance efforts; these governance issues will need to be addressed before the international community can engage meaningfully with them.

Maintaining long-term debt sustainability in HIPCs will also be a challenge. The economic weakness of many HIPCs leaves them vulnerable to exogenous shocks, such as a fall in primary commodity prices, which could alter their debt sustainability prognosis.

[10] Cameroon, Chad, Ethiopia, Gambia, Ghana, Guinea, Honduras, Madagascar, Malawi, Niger, Rwanda, Sao Tome and Principe, Senegal and Zambia.

[11] Burundi, Central African Republic, Congo (Republic of), Liberia, Somalia and Sudan.

Canada's Actions in Support of the HIPC Initiative

Canada has been at the forefront of international efforts for a swift and decisive approach to the debt burdens of the world's poorest countries, both multilaterally and bilaterally. Multilaterally, Canada has consistently advanced the debt relief agenda by:

- leading efforts in the G-7 for the enhanced HIPC debt initiative (announced in September 1999), as well as continually working to improve the effectiveness of the initiative, as evidenced by Canada's leadership role on the G-7 Leaders Statement on Debt Relief, issued at the Kananaskis Summit in June 2002;
- committing C$75 million in Budget 2003 to further debt relief efforts, bringing our total contribution to the HIPC debt relief trust funds at the IMF (C$65 million) and World Bank (C$250 million) to C$315 million. This will help to ensure timely debt relief for deserving countries;
- calling on all bilateral creditors to follow Canada's lead and to put in place a moratorium on debt payments from reforming HIPCs;
- supporting the provision of additional debt relief ("topping-up" assistance) at the completion point of the HIPC process for those countries negatively affected by, for example, falling commodity prices. Canada has also called for a more generous method of calculating the amount of debt relief that should be offered to countries in need of topping-up assistance; and
- calling for flexibility in linking HIPC debt relief to the Poverty Reduction Strategy Paper process to avoid delaying debt relief to deserving countries.

Bilaterally, Canada is helping the poorest countries by:

- no longer collecting debt payments from 11 reforming HIPCs on loans outstanding as of March 31, 1999; this took effect on January 1, 2001, under the Canadian Debt Initiative (CDI);
- forgiving, also under the CDI, all remaining debts owed to Canada for eligible countries that have completed the HIPC process; by 2002 Canada had cancelled all debts owed by Tanzania (C$83.6 million), Bolivia (C$11 million) and Benin (C$0.7 million). Guyana, having completed the HIPC process in late 2003, and Ethiopia, scheduled to complete the process in early 2004, will both be eligible for similar debt treatment in 2004. At the end of 2003, the eight remaining HIPCs, including Guyana and Ethiopia, participating in the CDI owe Canada a combined C$488 million;
- forgiving C$1.3 billion in Official Development Assistance (ODA) debt to 46 developing countries since 1978, including all of its ODA debt to 22 HIPCs, at a cost of C$900 million; of the HIPCs, only Myanmar (formerly Burma) currently has ODA debt to Canada; and
- providing development assistance since 1986 on a grant basis so as to avoid worsening the debt problems in the poorest countries.

ANNEX 1

Active IMF Lending Arrangements—As of December 31, 2003

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Stand-By Arrangements—Total			**54,439.21**	**22,331.96**
Argentina	September 20, 2003	September 19, 2006	8,981.00	7,151.00
Bolivia	April 2, 2003	April 1, 2004	85.75	21.43
Bosnia and Herzegovina	August 2, 2002	December 31, 2003	67.60	12.00
Brazil	September 6, 2002	December 31, 2003	27,375.12	10,175.48
Bulgaria	February 27, 2002	February 26, 2004	240.00	52.00
Colombia	January 15, 2003	January 14, 2005	1,548.00	1,548.00
Croatia, Republic of	February 3, 2003	April 2, 2004	105.88	105.88
Dominica	August 28, 2002	February 27, 2004	3.28	0.31
Dominican Republic	August 29, 2003	August 28, 2005	437.80	350.24
Ecuador	March 21, 2003	April 20, 2004	151.00	90.60
Guatemala	June 18, 2003	March 15, 2004	84.00	84.00
Jordan	July 3, 2002	July 2, 2004	85.28	74.62
Macedonia (Former Yugoslav Republic of)	April 30, 2003	June 15, 2004	20.00	8.00
Paraguay	December 15, 2003	March 31, 2005	50.00	50.00
Peru	February 1, 2002	February 29, 2004	255.00	255.00
Turkey	February 4, 2002	December 31, 2004	12,821.20	1,701.00
Uruguay	April 1, 2002	March 31, 2005	2,128.30	652.40
Extended Fund Facility Arrangements—Total			**4,432.40**	**473.73**
Indonesia	February 4, 2000	December 31, 2003	3,638.00	0.00
Serbia and Montenegro	May 14, 2002	May 13, 2005	650.00	350.00
Sri Lanka	April 18, 2003	April 17, 2006	144.40	123.73

ANNEX 1

Active IMF Lending Arrangements—As of December 31, 2003 *(cont'd)*

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(in SDR millions)	
Poverty Reduction and Growth Facility Arrangements—Total			**4,675.96**	**2,378.65**
Albania	June 21, 2002	June 20, 2005	28.00	16.00
Armenia	May 23, 2001	May 22, 2004	69.00	19.00
Azerbaijan	July 6, 2001	March 31, 2005	80.45	38.61
Bangladesh	June 20, 2003	June 20, 2006	347.00	297.50
Benin	July 17, 2000	March 31, 2004	27.00	1.35
Burkina Faso	June 11, 2003	June 10, 2006	24.08	20.64
Cameroon	December 21, 2000	December 20, 2004	111.42	31.83
Cape Verde	April 10, 2002	April 9, 2005	8.64	3.72
Chad	January 7, 2000	January 6, 2004	47.60	5.20
Congo, Democratic Republic of	June 12, 2002	June 11, 2005	580.00	160.63
Côte d'Ivoire	March 29, 2002	March 28, 2005	292.68	234.14
Dominica	December 29, 2003	December 28, 2006	7.69	5.33
Ethiopia	March 22, 2001	July 31, 2004	100.28	20.86
Gambia, The	July 18, 2002	July 17, 2005	20.22	17.33
Georgia	January 12, 2001	January 11, 2004	108.00	58.50
Ghana	May 9, 2003	May 8, 2006	184.50	131.80
Guinea	May 2, 2001	May 1, 2004	64.26	38.56
Guyana	September 20, 2002	March 19, 2006	54.55	43.03
Kenya	November 21, 2003	November 20, 2006	175.00	150.00
Kyrgyz Republic	December 6, 2001	December 5, 2004	73.40	28.68
Lao People's Democratic Republic	April 25, 2001	April 24, 2005	31.70	13.58
Lesotho	March 9, 2001	March 8, 2004	24.50	7.00
Madagascar	March 1, 2001	November 30, 2004	79.43	34.04
Malawi	December 21, 2000	December 20, 2004	45.11	32.23
Mauritania	July 18, 2003	July 17, 2006	6.44	5.52
Mongolia	September 28, 2001	July 31, 2005	28.49	16.28
Nepal	November 19, 2003	November 18, 2006	49.91	42.78
Nicaragua	December 13, 2002	December 12, 2005	97.50	69.64
Niger	December 22, 2000	June 30, 2004	59.20	8.44
Pakistan	December 6, 2001	December 5, 2004	1,033.70	344.56
Rwanda	August 12, 2002	August 11, 2005	4.00	2.86
Senegal	April 28, 2003	April 27, 2006	24.27	20.80
Sierra Leone	September 26, 2001	September 25, 2004	130.84	42.00
Sri Lanka	April 18, 2003	April 17, 2006	269.00	230.61
Tajikistan	December 11, 2002	December 10, 2005	65.00	49.00
Tanzania	August 16, 2003	August 15, 2006	19.60	16.80
Uganda	September 13, 2002	September 12, 2005	13.50	8.00
Vietnam	April 13, 2001	April 12, 2004	290.00	165.80
Total			**63,547.57**	**25,184.34**

ANNEX 2

IBRD Loans and IDA Credits—Fiscal Year 2003 (July 1, 2002–June 30, 2003)

	IBRD Amount	IDA Amount	Total No.	Total Amount
		(in millions of US dollars)		
By area				
Africa	15.0	3,722.2	61	3,737.2
East Asia and Pacific	1,767.1	543.7	24	2,310.8
Europe and Central Asia	2,089.3	580.8	54	2,670.1
Latin America and the Caribbean	5,667.8	152.7	53	5,819.5
Middle East and North Africa	855.6	200.4	17	1,056.0
South Asia	836.0	2,082.7	31	2,918.7
Total	**11,230.7**	**7,282.5**	**240**	**18,513.2**
By theme				
Economic management				777.7
Public sector governance				2,465.5
Rule of law				456.6
Financial and private sector development				2,957.5
Trade and integration				560.9
Social protection and risk management				2,345.8
Social development, gender, inclusion				1,003.1
Human development				3,356.3
Urban development				1,576.3
Rural development				1,910.9
Environment and natural resources management				1,102.6
Total				**18,513.2**

ANNEX 3

IBRD Loans and IDA Credits to Developing Countries

	IBRD		IDA		Total	
	No.	Amount	No.	Amount	No.	Amount
			(in millions of US dollars)			
By fiscal year (July–June)						
Cumulative to 1968	549	11,418.1	116	1,831.8	665	13,249.9
Total 1969–73	374	8,917.8	273	3,931.6	647	12,849.4
Total 1974–78	666	24,372.3	376	7,947.4	1,042	32,319.7
Total 1979–83	711	44,908.0	518	16,368.1	1,229	61,276.1
1983–84	129	11,947.2	106	3,575.0	235	15,522.2
1984–85	131	11,356.3	105	3,028.1	236	14,384.4
1985–86	131	13,178.8	97	3,139.9	228	16,318.7
1986–87	127	14,188.2	108	3,485.8	235	17,674.0
1987–88	118	14,762.0	99	4,458.7	217	19,220.7
1988–89	119	16,433.2	106	4,933.6	225	21,366.8
1989–90	121	15,179.7	101	5,522.0	222	20,701.7
1990–91	126	16,392.2	103	6,293.3	229	22,685.5
1991–92	112	15,156.0	110	6,549.7	222	21,705.7
1992–93	122	16,944.5	123	6,751.4	245	23,695.9
1993–94	124	14,243.9	104	6,592.1	228	20,836.0
1994–95	134	16,852.6	108	5,669.2	242	22,521.8
1995–96	129	14,656.0	127	6,864.0	256	21,520.0
1996–97	141	14,525.0	100	4,622.0	241	19,147.0
1997–98	151	21,086.2	135	7,507.8	286	28,594.0
1998–99	131	22,182.3	145	6,811.8	276	28,994.1
1999–00	97	10,918.6	126	4,357.6	223	15,276.2
2000–01	91	10,487.1	134	6,763.5	225	17,250.6
2001–02	96	11,451.8	133	8,067.6	229	19,519.4
2002–03	99	11,230.7	141	7,282.5	240	18,513.0
Total	**4,723**	**382,702.5**	**3,587**	**142,356.5**	**8,310**	**525,059.0**

ANNEX 4

**Disbursements by IBRD and IDA Borrowers:
Goods and Services From Canada—To June 30, 2003**

	IBRD	IDA	Total
	Amount	Amount	Amount
		(in millions of US dollars)	
By calendar year			
Cumulative to December 1960	133.5	–	133.5
1961	8.2	–	8.2
1962	3.7	–	3.7
1963	5.6	7.4	13.0
1964	4.7	1.8	6.5
1965	5.4	2.7	8.1
1966	11.6	5.3	16.9
1967	13.2	14.7	27.9
1968	6.3	7.8	14.1
1969	4.4	11.0	15.4
1970	7.6	1.3	8.9
1971	11.1	2.2	13.3
1972	10.5	2.3	12.8
1973	12.4	5.1	17.5
1974	15.8	8.4	24.2
1975	22.1	15.0	37.1
1976	25.7	10.8	36.5
1977	34.5	4.8	39.3
1978	26.1	5.5	31.6
1979	44.4	8.1	52.5
1980	51.5	7.8	59.3
1981	94.3	14.5	108.8
1982	75.0	17.6	92.6
1983	82.3	26.9	109.2
1984	92.6	54.3	146.9
1985	94.3	39.7	134.0
1986	184.8	46.8	231.6
1987 (January–June)	92.8	23.4	116.2

ANNEX 4

Disbursements by IBRD and IDA Borrowers:
Goods and Services From Canada—To June 30, 2003 *(cont'd)*

	IBRD	IDA	Total
	Amount	Amount	Amount
		(in millions of US dollars)	
By fiscal year			
1987–88	182.1	47.4	229.5
1988–89	197.0	45.0	242.0
1989–90	164.0	41.0	205.0
1990–91	139.0	34.0	173.0
1991–92	131.0	38.0	169.0
1992–93	151.0	41.0	192.0
1993–94	115.0	69.0	184.0
1994–95	123.0	48.0	171.0
1995–96	169.0	56.0	225.0
1996–97	113.0	42.0	155.0
1997–98	82.0	32.0	114.0
1998–99	69.0	37.0	106.0
1999–00	73.0	22.0	95.0
2000–01	45.0	15.0	60.0
2001–02	48.0	16.0	64.0
2002–03	41.0	20.0	61.0
Total	**2,967.1**	**922.4**	**3,889.5**
Per cent of total disbursements	2.4	1.8	2.2
Per cent of FY 2003 disbursements	3.02	1.33	2.1

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country—As of June 30, 2003

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Borrower or guarantor				
Afghanistan	–	545.3	28	545.3
Africa region	259.8	74.4	15	334.2
Albania	–	699.9	49	699.9
Algeria	5,911.8	–	72	5,911.8
Angola	–	360.4	13	360.4
Argentina	20,047.4	–	116	20,047.4
Armenia	12.0	723.9	29	735.9
Australia	417.7	–	7	417.7
Austria	106.4	–	9	106.4
Azerbaijan	–	597.0	20	597.0
Bahamas	42.8	–	5	42.8
Bangladesh	46.1	10,468.1	179	10,514.2
Barbados	118.4	–	12	118.4
Belarus	192.8	–	4	192.8
Belgium	76.0	–	4	76.0
Belize	86.2	–	9	86.2
Benin	–	794.5	53	794.5
Bhutan	–	64.3	9	64.3
Bolivia	299.3	1,832.2	82	2,131.5
Bosnia and Herzegovina	–	834.3	42	834.3
Botswana	280.7	15.8	25	296.5
Brazil	33,182.8	–	286	33,183.8
Bulgaria	1,801.5	–	30	1,801.5
Burkina Faso	1.9	1,345.6	60	1,347.5
Burundi	4.8	902.2	53	907.0
Cambodia	–	547.2	22	547.2
Cameroon	1,347.8	1,207.0	74	2,554.8
Cape Verde	–	193.9	18	193.9
Caribbean region	83.0	43.0	6	126.0
Central African Republic	–	448.5	27	448.5
Chad	39.5	973.6	45	1,013.1
Chile	3,710.2	19.0	64	3,729.2
China	27,274.2	9,946.7	245	37,220.9
Colombia	11,404.1	19.5	170	11,423.6
Comoros	–	119.1	18	119.1
Congo, Democratic Republic of	330.0	2,105.5	69	2,435.8
Congo, Republic of	216.7	314.3	25	531.0
Costa Rica	938.5	5.5	40	944.0
Côte d'Ivoire	2,887.9	2,042.5	87	4,930.4
Croatia	1,036.6	–	20	1,036.6
Cyprus	418.8	–	30	418.8
Czech Republic	776.0	–	3	776.0
Denmark	85.0	–	3	85.0
Djibouti	–	148.5	16	148.5
Dominica	4.0	16.3	5	20.3
Dominican Republic	968.7	22.0	36	990.7

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country—As of June 30, 2003 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Eastern Africa	–	45.0	1	45.0
Ecuador	2,823.3	36.9	79	2,860.2
Egypt, Arab Republic of	4,559.9	1,984.0	106	6,543.9
El Salvador	981.4	25.6	36	1,007.0
Equatorial Guinea	–	45.0	9	45.0
Eritrea	–	445.4	12	445.4
Estonia	150.7	–	8	150.7
Ethiopia	108.6	4,183.5	87	4,292.1
Fiji	152.9	–	12	152.9
Finland	316.8	–	18	316.8
France	250.0	–	1	250.0
Gabon	227.0	–	14	227.0
Gambia	–	259.2	28	259.2
Georgia	–	725.0	32	725.0
Ghana	207.0	4,236.0	113	4,443.0
Greece	490.8	–	17	490.8
Grenada	17.0	23.5	6	40.5
Guatemala	1,404.8	–	40	1,404.8
Guinea	75.2	1,318.5	61	1,394.0
Guinea-Bissau	–	285.9	23	285.9
Guyana	80.0	324.4	31	404.4
Haiti	2.6	626.5	37	629.1
Honduras	717.3	1,280.4	65	1,997.7
Hungary	4,333.6	–	40	4,333.6
Iceland	47.1	–	10	47.1
India	30,526.4	29,531.2	441	60,057.6
Indonesia	28,010.8	1,613.1	302	29,623.9
Iran, Islamic Republic of	2,490.1	–	43	2,490.1
Iraq	156.2	–	6	156.2
Ireland	152.5	–	8	153.5
Israel	284.5	–	11	285.5
Italy	399.6	–	8	399.6
Jamaica	1,660.8	–	69	1,660.6
Japan	862.9	–	31	862.9
Jordan	2,281.7	85.3	70	2,367.0
Kazakhstan, Republic of	1,924.0	–	23	1,924.0
Kenya	1,200.7	3,348.0	127	4,548.7
Korea, Republic of	15,647.0	110.8	120	15,757.8
Kosovo (Serbia and Montenegro)	–	11.0	3	11.0
Kyrgyzstan	–	649.2	27	649.2

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2003 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Lao People's Democratic Republic	–	687.3	34	687.3
Latvia	416.0	–	19	416.0
Lebanon	1,080.1	–	21	1,080.1
Lesotho	155.0	331.8	31	486.8
Liberia	156.0	114.5	33	270.5
Lithuania	490.9	–	17	490.9
Luxembourg	12.0	–	1	12.0
Macedonia (Former Yugoslav Repubic of)	276.0	378.7	26	654.7
Madagascar	32.9	2,326.5	89	2,359.4
Malawi	124.1	2,093.5	82	2,217.6
Malaysia	4,150.6	–	88	4,150.6
Maldives	–	64.9	7	64.9
Mali	1.9	1,565.3	65	1,567.2
Malta	7.5	–	1	7.5
Mauritania	146.0	736.7	52	882.7
Mauritius	459.7	20.2	37	479.9
Mexico	34,992.7	–	186	34,992.7
Moldova	302.8	226.2	21	529.0
Mongolia	–	307.9	18	307.9
Morocco	8,621.3	50.8	134	8,672.1
Mozambique	–	2,462.7	45	2,462.7
Myanmar	33.4	804.0	33	837.4
Nepal	–	1,731.1	75	1,731.1
Netherlands, The	244.0	–	8	244.0
New Zealand	126.8	–	6	126.8
Nicaragua	233.6	1,117.2	60	1,350.8
Niger	–	1,090.9	52	1,090.9
Nigeria	6,248.2	1,814.2	110	8,062.4
Norway	145.0	–	6	145.0
Organization of Eastern Caribbean States' countries	10.4	7.1	2	17.5
Oman	157.1	–	11	157.1
Pakistan	6,614.2	6,939.7	203	13,553.9
Panama	1,273.2	–	45	1,273.2
Papua New Guinea	786.6	113.2	44	899.8
Paraguay	816.9	45.5	43	862.4
Peru	5,540.7	–	92	5,540.7
Philippines	11,322.3	294.2	165	11,615.5
Poland	5,384.8	–	37	5,384.8
Portugal	1,338.8	–	32	1,338.8
Romania	5,984.0	–	32	5,984.0
Russia	13,141.1	–	56	13,141.1
Rwanda	–	1,188.5	56	1,188.5

ANNEX 5

IBRD Loans and IDA Cumulative Lending by Country—
As of June 30, 2003 *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Samoa	–	70.5	11	70.5
São Tomé and Principe	–	68.9	10	68.9
Senegal	164.9	2,208.9	101	2,373.8
Serbia and Montenegro	–	397.0	12	397.0
Seychelles	10.7	–	2	10.7
Sierra Leone	18.7	642.2	34	660.9
Singapore	181.3	–	14	181.3
Slovak Republic	341.3	–	5	341.3
Slovenia	177.7	–	5	177.7
Solomon Islands	–	49.9	8	49.9
Somalia	–	492.1	39	492.1
South Africa	302.8	–	13	302.8
Spain	478.7	–	12	478.7
Sri Lanka	210.7	2,661.4	94	2,872.1
Saint Kitts and Nevis	29.0	7.0	5	36.0
Saint Lucia	19.2	24.4	7	43.6
Saint Vincent and the Grenadines	5.4	11.6	4	17.0
Sudan	166.0	1,352.9	55	1,518.9
Swaziland	104.8	7.8	14	112.6
Syrian Arab Republic	613.2	47.3	20	660.5
Taiwan, Province of China	329.4	15.3	18	344.7
Tajikistan	–	322.1	18	322.1
Tanzania	318.9	4,161.0	123	4,479.9
Thailand	7,979.1	125.1	124	8,104.2
Togo	20.0	733.5	42	753.5
Tonga	–	10.9	3	10.9
Trinidad and Tobago	333.6	–	22	333.6
Tunisia	5,066.5	74.6	122	5,141.1
Turkey	20,417.9	178.5	146	20,596.4
Turkmenistan	89.5	–	3	89.5
Uganda	9.1	3,807.9	87	3,817.0
Ukraine	3,522.9	–	26	3,522.9
Uruguay	2,370.7	–	53	2,370.7
Uzbekistan	554.1	45.0	13	599.1
Vanuatu	–	18.9	5	18.9
Venezuela	3,328.4	–	40	3,328.4
Vietnam	–	4,155.6	39	4,155.6
Western Africa region	6.1	52.5	4	58.6
Yemen, Republic of	–	2,173.3	128	2,173.3
Yugoslavia, Federal Republic of	6,090.7	–	89	6,090.7
Zambia	679.1	2,641.8	81	3,320.9
Zimbabwe	983.2	661.9	36	1,645.1
Bank-wide total	**382,702.5**	**142,356.0**	**8,310**	**525,058.5**

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2003, by Country (July 1, 2002–June 30, 2003)

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
	(in millions of US dollars)			
Borrower or guarantor				
Afghanistan	–	215.2	4	215.2
Africa region	–	14.5	1	14.5
Albania	–	43.0	2	43.0
Algeria	183.5	–	2	183.5
Angola	–	49.6	2	49.6
Argentina	1,100.0	–	2	1,100.0
Armenia	–	40.0	1	40.0
Azerbaijan	–	65.9	2	65.9
Bangladesh	–	554.4	5	554.4
Benin	–	10.0	0	10.0
Bolivia	–	80.0	3	80.0
Bosnia and Herzegovina	–	22.7	3	22.7
Brazil	1,237.2	–	9	1,237.2
Bulgaria	268.4	–	4	268.4
Burkina Faso	–	160.1	4	160.1
Burundi	–	77.7	1	77.7
Cambodia	–	68.9	3	68.9
Cameroon	–	81.1	2	81.1
Cape Verde	–	15.5	1	15.5
Central African Republic	–	14.5	1	14.5
Chad	–	137.1	3	137.1
Chile	25.3	–	1	25.3
China	1,145.0	–	6	1,145.0
Colombia	905.0	–	5	905.0
Congo, Democratic Republic of	–	454.0	1	454.0
Congo, Republic of	–	41.0	1	41.0
Croatia	53.0	–	2	53.0
Djibouti	–	23.0	1	23.0
Dominican Republic	72.0	–	2	72.0
Ecuador	100.0	–	2	100.0
El Salvador	18.2	–	1	18.2
Egypt, Arab Republic of	12.4	–	1	12.4
Eritrea	–	60.0	1	60.0
Ethiopia	–	404.0	5	404.0
Georgia	–	75.4	4	75.4
Ghana	–	219.6	3	219.6
Grenada	7.0	7.0	2	14.0
Guatemala	79.5	–	2	79.5
Guinea	–	25.3	2	25.3
Guyana	0	16.8	2	16.8
Honduras	–	21.9	2	21.9

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2003, by Country (July 1, 2002–June 30, 2003) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
India	836.0	686.6	7	1,522.6
Indonesia	438.5	145.0	5	583.5
Iran	200.0	–	2	200.0
Jamaica	129.8	–	3	129.8
Jordan	240.0	–	2	240.0
Kazakhstan	40.4	–	1	40.4
Kenya	–	110.5	2	110.5
Kosovo (Serbia and Montenegro)	–	11.0	3	11.0
Kyrgyzstan	–	27.8	2	27.8
Lao People's Democratic Republic	–	24.7	2	24.7
Latvia	20.2	–	1	20.2
Lebanon	31.5	–	1	31.5
Macedonia (Former Yugoslav Republic of)	–	35.0	3	35.0
Madagascar	–	162.0	3	162.0
Malawi	–	136.9	3	136.9
Mexico	1,171.7	–	4	1,171.7
Moldova	–	24.7	3	24.7
Mongolia	–	7.5	1	7.5
Morocco	75.9	–	3	75.9
Mozambique	–	200.6	3	200.6
Nepal	–	96.6	3	96.6
Nicaragua	–	27.0	2	27.0
Niger	–	60.0	2	60.0
Nigeria	–	229.7	3	229.7
Pakistan	–	297.2	7	297.2
Peru	242.5	–	5	242.5
Philippines	183.6	–	3	183.6
Poland	100.0	–	1	100.0
Romania	485.6	–	5	485.6
Russian Federation	581.1	–	5	581.1
Rwanda	–	115.5	2	115.5
Samoa	–	4.5	1	4.5
Senegal	–	46.0	1	46.0
Serbia and Montenegro	–	225.3	8	225.3
Sierra Leone	–	105.0	4	105.0
Slovak Republic	5.4	–	1	5.4
Sri Lanka	–	232.7	5	232.7
Saint Kitts and Nevis	4.1	–	1	4.1
South Africa	15.0	–	1	15.0

ANNEX 6

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2003, by Country (July 1, 2002–June 30, 2003) *(cont'd)*

	IBRD loans	IDA loans	Total loans	
	Amount	Amount	No.	Amount
		(in millions of US dollars)		
Tajikistan	–	20.0	1	20.0
Tanzania	–	250.5	3	250.5
Trinidad and Tobago	20.0	–	1	20.0
Tunisia	112.4	–	2	112.4
Turkey	300.0	–	1	300.0
Uganda	–	406.5	4	406.5
Ukraine	300.1	–	4	300.1
Uruguay	555.6	–	4	555.6
Uzbekistan	35.0	25.0	1	60.0
Vietnam	–	293.1	3	293.1
Yemen, Republic of	–	177.4	3	177.4
Zambia	–	149.5	3	149.5
Bank-wide total	**11,230.7**	**7,282.5**	**240**	**18,513.2**

ANNEX 7

2003 COMMUNIQUÉS OF THE INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE OF THE BOARD OF GOVERNORS OF THE IMF

Washington, D.C.
April 12, 2003

1. The International Monetary and Financial Committee held its seventh meeting in Washington, D.C. on April 12, 2003, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

Global Economic Outlook

2. Meeting at a time of economic uncertainty, the Committee reaffirms its commitment to close international cooperation to strengthen confidence and support the global recovery. It underscores the importance of continued vigilance. But with readiness to adjust policies as necessary and determined further action on the structural front, the world economy has the prospect of strengthening growth and renewed prosperity. Substantial and concrete progress with multilateral trade liberalization is a key priority for the coming months and has the full political commitment of Ministers.
3. In the advanced economies, sound fundamentals and policies should deliver stronger growth in the second half of the year. With inflationary pressures well contained, monetary policies should remain accommodative, and in many countries there is room to ease monetary policy further if needed. On the fiscal side, the automatic stabilizers should be generally allowed to operate, though in many countries action is needed to address medium-term fiscal pressures, including those arising from ageing populations. The advanced economies have a shared responsibility to go further in implementing structural reforms—to enhance prospects for a sustained broad-based world recovery that helps correct global imbalances. In the United States, policies consistent with a sound medium-term fiscal position remain important. In Europe, labor and product market reforms need to be accelerated. In Japan, further steps are needed to strengthen the banking and corporate sectors and end deflation, accompanied by a start toward strengthening the medium-term fiscal position.
4. Emerging market countries will need to continue to strengthen their policies for macroeconomic stability and structural reforms and therefore their resilience to adverse global developments. In countries facing external financing constraints, efforts to sustain macroeconomic stability will continue to be key to restoring confidence. For all countries, the continued implementation of reforms to strengthen banking and corporate sectors and underpin growth remains a priority. The IMF has a key role to play in supporting these efforts.

5. Prospects for stronger growth in low-income countries should be supported by improved economic policies, stronger institutions, progress in resolving regional conflicts, and increased donor resources, including through debt relief under the HIPC Initiative. Sustained implementation of sound policies, supported by strong ownership and the Monterrey Consensus, will remain key to reducing poverty and meeting the Millennium Development Goals (MDGs). African countries need to continue to press ahead with the wide-ranging reforms embedded in the New Partnership for Africa's Development (NEPAD)—in particular to improve the quality of their institutions and ensure peace and security. The Committee reiterates the importance of technical assistance, including the contribution of AFRITACs and other regional technical assistance centers. It calls on the international community to urgently mobilize additional assistance to address the serious food shortage in Africa.
6. The Committee notes that the present situation in Iraq poses significant challenges, with an urgent need to restore security, relieve human suffering and promote economic growth and poverty reduction. We support a further UN Security Council resolution. We further note that engagement by the international community including the Bretton Woods institutions would be essential for sustained economic, social, and political development in Iraq, recognizing that the Iraqi people have the responsibility to implement the right policies and build their own future. The IMF and the World Bank stand ready to play their normal role in Iraq's re-development at the appropriate time. They will also monitor closely the impact of the conflict on all their members and stand ready to help and support those adversely affected. It is important to address the debt issue, and we look forward to early engagement of the Paris Club.
7. The Committee—having greatly benefited from the views of Dr. Supachai Panitchpakdi, Director-General of the World Trade Organization—underscores the urgency of concrete progress toward multilateral trade liberalization under the Doha Round through the continued commitment of the international community. This will be critical in supporting higher economic growth and poverty reduction, and enabling developing countries to participate more fully in the benefits of globalization. The Committee accordingly calls on industrial, emerging, and developing countries to play their part in renewed efforts to address obstacles to further progress in advance of the ministerial meeting of the World Trade Organization in Cancún next September. Urgent progress is needed in a number of areas, including agriculture, where better market access and lower trade distorting subsidies are particularly important for developing countries. The IMF, in collaboration with other international institutions, stands ready to support members' closer regional cooperation in the context of deeper integration into world markets.

Strengthening Crisis Prevention

8. The Committee reiterates the importance it attaches to strengthening the IMF's crisis prevention capacity and welcomes the steps in many countries to improve economic resilience and financial stability. However, there is still room for further improvement. Going forward, sustained implementation of a strengthened framework of bilateral, regional, and multilateral surveillance will be essential to provide more robust assessments of crisis vulnerabilities, debt sustainability, currency mismatches and other balance sheet and capital account developments, as well as further progress in strengthening data provision to the IMF and data dissemination to the public.
9. The Committee welcomes progress with the standards and codes process and the Financial Sector Assessment Program (FSAP) and the role these play in enhancing IMF surveillance. It calls on the IMF to continue to move forward with these initiatives to strengthen members' institutions, policy frameworks, and financial sectors, including through technical assistance. It stresses the importance of further enhancing the quality and effectiveness of standards and codes assessments, and calls on the IMF to implement quickly agreed measures to strengthen prioritization, technical assistance, and follow up of FSAP and ROSC assessments. In this context, the Committee looks forward to the further work of the Financial Stability Forum and standard-setting bodies on strengthening the content and coverage of standards in accounting, auditing, and corporate governance, and on improving transparency and financial disclosure.
10. The Committee supports the IMF's continued efforts to make surveillance more comprehensive and accountable, including through strengthening the IMF's policy advice on reducing vulnerabilities; greater attention to the spillovers from policies in countries of systemic or regional importance; more effective use of the IMF's cross-country experience; enhanced awareness of political economy factors; and bringing to bear a fresh perspective in surveillance of program countries. The Committee looks forward to the IMF's further work on surveillance and other crisis prevention issues and a report on progress for this year's Annual Meetings.
11. The Committee welcomes the increase in voluntary publication of country staff reports, but notes that the rate of publication across countries and regions remains uneven. It looks forward to further progress through the forthcoming review of the IMF's transparency policy, and stresses that the candor of the IMF's analysis and advice should be preserved.
12. The Committee emphasizes support for ways to achieve the objectives of the Contingent Credit Lines (CCL) in encouraging policies to reduce vulnerabilities and providing a means of support for members with strong policies in dealing with global financial developments. It looks forward to a report on how best to promote these objectives following the conclusion of the review of the facility.

Improving the Capacity to Resolve Financial Crises

13. Effective crisis resolution mechanisms, by promoting sound policies and better functioning capital markets, contribute to crisis prevention. The Committee welcomes the strengthened framework on access to IMF resources. This includes: the substantive criteria for exceptional access in capital account crises; and strengthened procedures, such as early involvement of the Executive Board in the process and a separate report evaluating the case for exceptional access. Consistent implementation of the framework will provide members and markets with clarity and predictability about IMF decisions in crises.

14. The Committee welcomes the inclusion of collective action clauses (CACs) by several countries, most recently Mexico, in international sovereign bond issues. It also welcomes the announcement that, by June of this year, those EU countries issuing bonds under foreign jurisdictions will include CACs. The Committee welcomes the work of the G-10, emerging markets, and the private sector in contributing to the development of CACs. It looks forward to the inclusion of CACs in international bond issues becoming standard market practice, and calls on the IMF to promote the voluntary inclusion of CACs in the context of its surveillance. The Committee welcomes recent initiatives to formulate a voluntary code of conduct for debtors and their creditors, which will improve the restructuring process, and encourages the IMF to contribute to this work.

15. The Committee welcomes the work of the IMF in developing a concrete proposal for a statutory sovereign debt restructuring mechanism (SDRM) and expresses its appreciation for the IMF management and staff's efforts. The extensive analysis and consultation undertaken in developing the proposal have served to promote better understanding of the issues to be addressed in bringing about orderly resolution of crises. The Managing Director's report sets out the current position. The Committee, while recognizing that it is not feasible now to move forward to establish the SDRM, agrees that work should continue on issues raised in its development that are of general relevance to the orderly resolution of financial crises. These issues include inter-creditor equity considerations, enhancing transparency and disclosure, and aggregation issues. The IMF will report on progress at the Committee's next meeting.

Implementing Initiatives to Support Low-Income Countries

16. The Committee recognizes the urgent need to address the challenge of meeting the Millennium Development Goals, and reiterates that the IMF continues to have an important role to play in assisting low-income countries progress toward them. This will require enhanced efforts by developing and developed countries working in partnership. The Committee stresses the importance of sound macroeconomic policies and strong public expenditure and financial management systems. The Committee recognizes the urgent need to enhance market access and to increase the level and effectiveness of donor resources for developing

countries. Proposals to achieve this, including facilities, are being considered, and the Committee looks forward to progress in the coming months. Building on countries' poverty reduction strategy papers (PRSPs), the Committee encourages the IMF to work with low-income countries to strengthen further the alignment of the PRGF, domestic budgets, and the PRSP approach. This will be facilitated through more realistic economic projections, systematic analysis of the sources of growth, effective Bank-Fund collaboration, and flexibility in program design, including to accommodate higher aid inflows. The Committee encourages donors to coordinate and harmonize their assistance in line with PRSP priorities, and to provide technical assistance to help members build the needed capacity to design and operationalize PRSP strategies and to improve public expenditure management. It endorses further work on the linkages between growth and poverty reduction, including the role of the private sector. The Committee also looks forward to the review of the role of the IMF in low-income countries over the medium term, and its paper on helping low-income countries to deal with shocks.

17. The Committee welcomes the further progress made in implementing the HIPC Initiative, but notes that some countries have experienced delays in reaching the completion point, and that other eligible countries are facing obstacles to participation in the Initiative. It looks forward to a review of these issues at its next meeting. The Committee reaffirms its commitment to the full financing of the Initiative. It urges all creditors to participate fully, and encourages further Bank-Fund efforts to help creditor and debtor countries address HIPC-to-HIPC debt relief and creditor litigation issues. It emphasizes the need to ensure lasting debt sustainability, which will require both the full implementation and financing of the Initiative, and continued sound economic policies, good governance, and prudent debt management. In this context, the Committee welcomes the efforts by some countries to provide additional debt relief beyond HIPC terms. The Committee supports joint Bank-Fund work to improve its assessments of longer-term debt sustainability for heavily indebted poor countries, and looks forward to a progress report at the next meeting.

Other Issues

18. The Committee welcomes the further actions by members to combat money laundering and the financing of terrorism, and notes with satisfaction the progress with the 12-month pilot program of AML/CFT assessments. It underscores the importance of continued close cooperation between the IMF, the World Bank, the FATF, and regional bodies to complete the pilot successfully, and of further enhancing the delivery of critically needed technical assistance. The Committee encourages all members to adopt AML/CFT laws and practices consistent with the agreed international standards, and looks forward to a full report at the conclusion of the pilot program.

19. The Committee considers it important that, as pointed out in the Monterrey Consensus, all members should have an adequate voice and representation in the institution. It welcomes recent administrative steps to strengthen the capacity of the African constituencies. The Committee notes that the Twelfth General Review of Quotas has been concluded and that the IMF is well positioned to meet the projected needs of its members. The Committee looks forward to receiving a status report by the 2003 Annual Meetings on the adequacy of IMF resources, the distribution of quotas, and measures to strengthen IMF governance, consistent with the resolution of the Board of Governors, in the context of the Thirteenth General Review of Quotas. The Committee recommends completion of the ratification of the Fourth Amendment.
20. The Committee welcomes the thorough follow up being given to the first report of the Independent Evaluation Office on prolonged use of IMF resources. It looks forward to future IEO reports as a way of enhancing the listening and learning culture within the IMF.
21. The Committee expresses its appreciation of the work of Eduardo Aninat as Deputy Managing Director.
22. The next meeting of the IMFC will be held in Dubai, on September 21, 2003.

Dubai, September 21, 2003

1. The International Monetary and Financial Committee held its eighth meeting in Dubai on September 21, 2003, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee expresses its gratitude to the Dubai authorities and the government of the United Arab Emirates for the excellent arrangements.

The Global Economy and Financial Markets

2. The Committee welcomes the increasing signs that economic activity is strengthening in many economies, and the improved prospects for a steady and strengthening global recovery going forward. The major uncertainties have lessened since we met last April. Nevertheless, risks remain in many countries and it is important that policymakers stand ready to take the necessary policy actions. The Committee underscores the importance of close international cooperation and determined action across the membership to foster a strong, sustainable, and broad-based economic recovery.
3. The Committee emphasizes that, as the recovery proceeds, all countries have an interest in seeing more balanced growth with orderly adjustment. Sustained and vigorous structural reforms in many areas, and domestic sources of growth, are important in this respect. The Committee agrees on the need for continued focus by the IMF on exchange rate issues across the membership.

4. The international community must urgently make progress on trade and development. Ministers reaffirm their full political commitment to a multilateral rules-based approach to trade liberalization, and to making substantial and concrete progress. Ministers were disappointed at the breakdown of trade negotiations in Cancún. Ministers urge a speedy resumption of the Doha Round, which is vital for strong global growth and our development objectives. This should focus on the issues of importance to all countries of open markets and fair access and the reduction of trade-distorting subsidies in all areas, notably in agriculture. The Committee reiterates the crucial importance of removing the obstacles and moving forward without delay, and calls on all countries to play their part. It stresses the importance of the IMF's initiative to provide assistance to countries to help them address the transitional impact of trade reforms, which will contribute to the Doha Round.
5. In the advanced economies, monetary policy should continue to support demand in the context of low inflation, and the automatic fiscal stabilizers should be allowed to operate within credible medium-term frameworks to deliver fiscal consolidation. The vigorous pursuit of structural reforms, and enhanced corporate governance and transparency are key to stronger, globally balanced growth. In the United States, where the fiscal stance has substantially supported activity, fiscal policy will need to focus on strengthening sustainability over the medium term. In Europe, progress in structural reforms should be accelerated and deepened both to strengthen work incentives, investment, and competition and to address the fiscal pressures of population aging. In Japan, continued efforts will be necessary to strengthen the banking and corporate sectors and end deflation, and to make a beginning toward fiscal consolidation over the medium term.
6. The improved financial market environment provides a valuable window of opportunity for emerging market economies to continue to pursue ambitious institutional and structural reforms which, together with sound macroeconomic policies, will enhance growth prospects and reduce vulnerabilities. While many countries have strengthened policies, key priorities remain to improve fiscal positions, strengthen banking and corporate sectors, reduce balance sheet vulnerabilities, and foster more broadly-based growth. Growth in the Middle East and North Africa has picked up. However, the challenge facing the region will be to accelerate medium-term growth and absorb the rapidly growing labor force.
7. The Committee reaffirms its support for a multilateral effort to reconstruct and redevelop Iraq, and welcomes the constructive role being played by the IMF. It looks forward to the donors conference in Madrid next month based on a comprehensive needs assessment involving the World Bank and the IMF. The Committee supports the IMF providing, subject to its policies, financial and other assistance to Iraq.
8. Growth prospects in many low-income countries have strengthened, underpinned by improved macroeconomic policies and domestic reforms. However, significantly faster growth will be needed to reduce poverty and

meet the Millennium Development Goals (MDGs) set out in the UN Millennium Declaration. This requires stronger policy frameworks and institutions, better governance, higher and more effective aid flows, and improved market access. African countries should continue to press forward with the region-wide implementation of the New Partnership for Africa's Development (NEPAD), particularly to strengthen the foundations for investment and private sector-led growth.

Strengthening IMF Surveillance and Promoting International Financial Stability

9. Strengthened and effective IMF surveillance is essential to enhancing crisis prevention and promoting stability and sustainable global growth. The Committee welcomes the ongoing reforms to strengthen the framework for IMF surveillance, and underlines the importance of enhancing and implementing surveillance consistently and evenhandedly across the membership. The Committee also welcomes the increased focus of surveillance on capital markets, and encourages the IMF and the Financial Stability Forum working together to identify gaps and further strengthen assessments of systemic weaknesses in financial markets.
10. The Committee stresses the need for the IMF to continue to improve the quality, effectiveness, and persuasiveness of its surveillance. This will involve: sharpening surveillance, especially in systemically and regionally important countries; working to enhance the impact of IMF policy advice; and continuing efforts to bring fresh perspectives to assessments. The Committee looks forward to discussing progress in these areas following the Executive Board's 2004 biennial review of surveillance.
11. The Committee emphasizes that it is particularly important that surveillance focus on identifying potential problems early and provide candid advice on policy reforms. In this respect, Committee members identified a number of key issues for the coming year, including: progress on structural reform and on medium-term sustainable fiscal frameworks; reducing balance sheet vulnerabilities, including currency mismatches, and improving debt sustainability; and encouraging policy measures to reduce global imbalances.
12. The Committee underscores the importance of increased transparency and candor of the IMF's advice to members. It notes the Executive Board's recent agreement on a policy of voluntary but presumed publication of IMF Article IV reports and program documents, and the enhanced provisions for exceptional access.
13. The Committee emphasizes its support for ways to achieve some of the objectives of the Contingent Credit Lines (CCL), intended to reduce vulnerabilities and provide precautionary support for members with strong policies in dealing with external financial developments. It looks forward to further work in this area.

14. The Committee welcomes the progress in strengthening the framework for crisis resolution, especially the inclusion by an increasing number of countries of collective action clauses (CACs) in their international sovereign bonds, and encourages their use on a voluntary basis by other countries. It also calls on the IMF to promote the voluntary inclusion of CACs. The Committee looks forward to the efforts led by sovereign debtors and private creditors to develop a voluntary Code of Conduct, and encourages the IMF to continue to contribute to this work. It looks forward to the ongoing work on issues of general relevance to the orderly resolution of financial crises, including transparency and disclosure, aggregation and inter-creditor equity. The Committee looks forward to a report on progress at its next meeting.

Accelerating Poverty Reduction and Strengthening Sustainable Economic Growth in Low-Income Countries

15. The Committee stresses that the IMF has an important role to play in helping low-income countries achieve high and sustained growth and poverty reduction, in close cooperation with the World Bank. It agrees that this support should be firmly aligned behind Poverty Reduction Strategy Papers and that the Fund should work in its core areas of competence alongside the Bank in support of the Millennium Development Goals. The IMF needs to remain engaged with low-income countries over the long term through well-targeted technical assistance, capacity-building, surveillance, and, when warranted, temporary financial assistance. The Committee looks forward to reviewing Bank-Fund collaboration in that area at its next meeting.
16. The Committee emphasizes the importance of initiatives to enhance the IMF's support for low-income countries, including ensuring that macroeconomic policy frameworks support higher and sustained growth and poverty reduction; improving governance and strengthening institutions to support growth and private sector development; reducing vulnerability to shocks; and helping countries move beyond sustained reliance on IMF financial arrangements when ready. The Committee underscores the importance of technical assistance, and looks forward to work on adapting IMF instruments and reviewing PRGF financing. The Committee looks forward to a comprehensive review of progress at its next meeting.
17. The Committee emphasizes the urgent need to enhance market access and to increase the level and effectiveness of donor resources for low-income countries. In order to help achieve the Millennium Development Goals, the Committee calls upon the IMF to cooperate with the World Bank in work on aid effectiveness, absorptive capacity, and results-based measurement mechanisms, and in examining the merits of various policy options and financing mechanisms, such as an international

financing facility, to mobilize the substantial additional resources that are needed over the medium term. Developing and emerging market countries should also be closely involved. The Committee looks forward to a report by the next Annual Meetings.

18. The Committee notes the progress in providing debt relief to the world's poorest countries under the enhanced HIPC Initiative. It calls on the IMF, in collaboration with the World Bank, to develop strategies to help countries implement the necessary policies and reforms to reach decision and completion points as quickly as possible, and achieve a lasting exit from unsustainable debt. The Committee urges all creditors that have not yet done so to deliver debt relief in full and invites the IMF to report on the compliance of countries. It recognizes the importance of providing topping up as appropriate, and of the on-going discussions on the topping-up methodology and the financial implications.

Other issues

19. The Committee stresses that the IMF's effectiveness as a cooperative institution depends on all members having an appropriate voice and representation. The Committee welcomes the measures being taken to improve the capacity of developing and transition countries to participate more effectively in IMF policy formulation and decision-making. It welcomes the IMF Executive Board's progress report on quotas, representation and voice and asks the IMF to examine these issues further, and will review progress at its next meeting. The Committee recommends completion of the ratification of the Fourth Amendment.
20. The Committee welcomes the further actions taken by the international community to combat money laundering and the financing of terrorism, and the progress with the 12-month pilot program of AML/CFT assessments. The Committee is encouraged by the continued close cooperation among the IMF, the World Bank, the FATF, and FATF-style regional bodies, and increased country involvement, and supports the enhanced delivery of critically needed technical assistance. The Committee encourages all members to adopt AML/CFT laws and practices consistent with the agreed international standards, and looks forward to a full report at the conclusion of the pilot program.
21. The Committee welcomes the work of the Independent Evaluation Office, and its role in enhancing the learning culture, effectiveness, and accountability of the IMF. It emphasizes the importance of the IMF taking forward the work on prolonged use, capital account crises, and fiscal adjustment, in the light of the IEO's recommendations.
22. The Committee expresses its appreciation of the work of Shigemitsu Sugisaki as Deputy Managing Director and Kenneth Rogoff as Economic Counsellor.
23. The next meeting of the IMFC will be held in Washington, D.C. on April 24, 2004.

ANNEX 8

2003 COMMUNIQUÉS OF THE DEVELOPMENT COMMITTEE OF THE BOARDS OF GOVERNORS OF THE WORLD BANK AND THE IMF

Washington, D.C.
April 13, 2003

1. We met today to review progress in the work of implementing the strategies, partnerships and actions agreed in Monterrey and Johannesburg to achieve the Millennium Development Goals[1] and to consider ways to enhance the voice and participation of developing and transition countries in our institutions.
2. Since our meeting last fall, the global environment has become more uncertain. Slower economic growth, the war in Iraq, and failure to make more substantive progress on the Doha Development Agenda add to the challenge of implementing the global development agenda. We therefore strongly reaffirmed our commitment to the global effort needed to reduce poverty in developing and transition countries and achieve the MDGs.
3. To accelerate progress toward these and related goals, we emphasized the need for policies by both developed and developing countries in partnership to generate stronger economic growth complemented by actions to enhance the capabilities of poor people to participate in growth and access key social services. For developing countries, three interrelated areas in particular require strengthened efforts: improving the environment for investment and private sector activity, including macroeconomic stability and supporting infrastructure; strengthening governance, including public financial management, and capacity in the private and public sector; and increasing human capital through broader and more effective delivery of basic and social services to the poor. Such stronger reform efforts by developing countries would lay the foundations for enhanced growth and private financing. As agreed at Monterrey, these efforts need to be matched with stronger support from developed countries, in particular through increased market access for developing country exports, debt relief, and increases in the volume, predictability and effectiveness of aid. Proposals to achieve this, including facilities, are being considered and we look forward to progress in the coming months. We are pleased that on April 8, IDA's Thirteenth Replenishment became effective. We also reaffirmed our commitment to increased assistance to the sub-Saharan African and other countries that face special challenges in meeting the MDGs.

[1] From the U.N. Millennium Declaration, endorsed by Heads of State and Government in the U.N. General Assembly on September 8, 2000.

4. On improving aid quality, including its delivery and management aspects, we called for swift progress in implementing the results agenda and the agreements in the Rome Declaration on Harmonization. We underlined the central importance of anchoring strengthened efforts in country-owned strategies, as set out for low-income countries in PRSPs, linked to national budget processes and providing the country context within which donors and international agencies can align support.
5. We welcomed the progress on developing a global monitoring framework to allow the Committee to regularly assess progress and to reinforce accountabilities among developing and developed countries, as well as institutional partners, for the policies and actions for achieving the MDGs and related outcomes. We urged the Bank and the Fund to continue to work closely with partner agencies—UN, Regional Development Banks, OECD/DAC and WTO—using institutional mandates to guide the division of responsibilities for monitoring work. We called upon both multilateral agencies and bilateral donors to take the necessary steps to refine and harmonize their instruments of analysis and measurement. In this context, we urged the Bank, working in a participatory manner, to continue to improve the Country Policy and Institutional Assessment (CPIA) methodology and the transparency of its application. The urgency of the work on statistical capacity building, especially for those countries most at risk of not meeting the MDGs, was underlined. We looked forward to the next global monitoring report.
6. Continuing progress on the Fast Track Initiative on Education For All was welcomed although we recognized that more needs to be done to follow up on the commitment to adequately fund the initial seven countries and to provide the required support to other countries that meet the eligibility criteria. Furthermore, extra efforts are needed to achieve the 2005 MDG on gender parity in access to primary and secondary education. We asked, before our next meeting, to be informed on progress. We reviewed progress on water and sanitation and underlined the important contribution that these make to the other development goals. We welcomed the Bank's recent strategy to enhance support to the water sector and look forward to its implementation. We noted the recent report of the Panel on Financing Water Infrastructure, and asked the Bank to consider, before our next meeting, how it can implement relevant recommendations of the Panel report. We also considered progress in health and HIV/AIDS and encouraged the Bank to strengthen further its cooperation with other partners and to intensify its efforts at the country level. While each service sector will have to find its own approach to accelerating progress, we underlined the importance of anchoring the efforts to achieve MDG goals in country-owned strategies such as in PRSPs for low-income countries. We stressed that sound policies and efforts by developing countries should be supported by adequate and appropriate financing and we asked the Bank to report on progress in this regard at our next meeting.

7. We emphasized the critical role of investment in infrastructure for economic growth, and its linkages with the provision of social services and the attainment of the MDGs. We welcomed the Bank's renewed commitment to increase its support to such investment and asked the Bank to report on its further efforts at our next meeting.
8. Trade remains of crucial importance to growth and poverty reduction. At a time of global uncertainty, it is even more important to demonstrate that multilateral cooperation can succeed in meeting the ambitious targets set for the Doha Development Agenda. We urge countries to come to an agreement quickly in those areas where Doha deadlines have already been missed. It is essential for developed countries to do more to liberalize their markets and eliminate trade-distorting subsidies, including in the areas of agriculture, textiles and clothing, which are of particular importance for developing countries. At the same time, we emphasize the importance of trade facilitation and liberalization efforts in developing countries. These efforts must be integrated into an overall development strategy, in conjunction with the necessary policies, infrastructure and institutional capacities that strengthen their ability to participate in international trade. We call on the Bank and the Fund to continue to step up their efforts to support trade. We urge that future Country Assistance Strategies include trade-enhancing lending operations and capacity building for member countries where such trade-related support is a clear country priority.
9. Enhancing the voice and effective participation of developing and transition countries in the work and decision-making of the Bretton Woods Institutions can contribute importantly to strengthening the international dialogue and the effectiveness of these institutions. We welcomed the recent capacity-enhancing decisions by the Executive Boards of the Bank and the Fund and we urge them to consider additional steps that might be taken. These decisions will help to ensure that a more effective capacity exists to articulate the views and concerns of all members. We encourage potential donors to actively pursue the idea of creating a financing mechanism that could support independent research and advice in key policy areas. Broader and more far-reaching ideas have also been advanced to help achieve enhanced participation in the institutions. We note that a status report by the Fund Executive Board to the IMFC on the adequacy of IMF resources, the distribution of quotas and the strengthening of Fund governance is to be prepared for its next meeting. We requested the Boards of the Bank and Fund to consider and elaborate upon options with a potential for broad support, taking account of shareholder and institutional implications. On this basis, we will pursue our discussions of these matters and requested a progress report for our next meeting.
10. We welcomed the progress made on the HIPC initiative and reconfirmed our commitment to its implementation and full financing. We recalled that achievement of long-term debt sustainability will require actions on the part of HIPC countries as well as development partners to complement

debt relief under the enhanced HIPC initiative. We also recalled that within existing guidelines, additional relief can be provided at the completion point, on a case-by-case basis. We welcomed the donor community pledges to close the financing gap in the HIPC Trust Fund and urged donors to translate these into concrete contributions in the coming months. We welcomed the recent paper by the Bank and the Fund that reviewed the difficult issues of creditor participation, including HIPC-to-HIPC debt relief and creditor litigation and welcomed the decision by the Bank to explore options to assist with HIPC-to-HIPC debt. We once again reiterated the request that all official bilateral and commercial creditors that have not yet done so participate in the HIPC initiative. We look forward to reviewing implementation, including any difficulties encountered in reaching decision and completion points, at our next meeting.

11. We noted that the present situation in Iraq poses significant challenges, with an urgent need to restore security, relieve human suffering and promote economic growth and poverty reduction. We support a further UN Security Council resolution. We further note that engagement by the international community including the Bretton Woods institutions would be essential for sustained economic, social, and political development in Iraq, recognizing that the Iraqi people have the responsibility to implement the right policies and build their own future. The World Bank and the IMF stand ready to play their normal role in Iraq's re-development at the appropriate time. They will also monitor closely the impact of the conflict on all their members and stand ready to help and support those adversely affected. It is important to address the debt issue, and we look forward to early engagement of the Paris Club.
12. The next meeting of the Development Committee will be held in Dubai, United Arab Emirates, on September 22, 2003.

Dubai, United Arab Emirates
September 22, 2003

1. At our last meeting, we strongly reaffirmed our commitment to achieve the Millennium Development Goals (MDGs) set out in the U.N. Millennium Declaration, endorsed by Heads of State and Governments in the U.N. General Assembly on September 8, 2000 and in particular our commitment to the global effort needed to reduce poverty. Today we renewed that commitment and continued our work on implementing the strategies, partnerships and actions agreed in Doha, Monterrey and Johannesburg.
2. We welcomed the paper on Supporting Sound Policies with Adequate and Appropriate Financing and its country-based approach. We agreed that there was an urgent need to scale up efforts if the MDGs are to be met and that this would require enhanced concerted actions on the parts of both developing and developed countries and the international institutions. Developing countries will have to sustain their efforts to strengthen policies

and governance so as to ensure that domestic resources, private inflows and aid can be used effectively in spurring growth, improving service delivery and reducing poverty. Developed countries will need to move vigorously in supporting these efforts with more and better aid, debt relief and improved market access.

3. To implement this partnership to meet the MDGs, systematic efforts will be needed to achieve greater synergies between poverty reduction strategies and longer-term MDG targets, to specify and implement the actions needed to accelerate progress on the MDGs, and to identify the volumes and forms of financing needed to implement agreed strategies. We agreed that ensuring adequate, timely and more predictable financing and enhancing aid absorptive capacity through policy and institutional reforms would both be critical to the virtuous cycle of actions needed to meet the MDGs. We urge that countries, without delay, take specific steps to meet their commitments to provide additional aid resources by 2006. Furthermore, we call upon the Bank, working with the Fund, to examine the merits of various policy options, such as an international financing facility, to mobilize the substantial additional resources that are needed over the medium term and can be effectively used to achieve development results and in scaling up progress towards the MDGs. Developing and emerging market countries should also be consulted closely. We asked the Bank to report to us at our Spring 2004 meeting.
4. Changes are also needed in the way that aid is provided as highlighted in the Declaration of the Rome High Level Forum on Harmonization. In addition to streamlining procedures and lowering transaction costs, assistance will have to be better aligned to country need, to country priorities and processes, to countries that demonstrate the ability to achieve measurable development results; and to support the development of countries' capacity. Commitments should also be predictable and long-term; provided in a form that can meet cash requirements to achieve the MDGs; and in appropriate country circumstances, especially in view of long-term debt sustainability, more of it should be provided in grants and, where conditions warrant, in ways that can finance recurrent costs.
5. We continue to believe that a successful conclusion to the Doha Development Agenda is vital to growth, poverty reduction and progress in attaining the MDGs. We therefore regret the temporary setback to multilateral trade negotiations at WTO's Fifth Ministerial and urge all participants to capitalize on progress to date and put the process back on track as soon as possible. We welcome the Bank and Fund's recent pledge to support countries to benefit fully from a more liberalized trading system. We also urge continued efforts to tailor Bank lending activities to support country-owned trade initiatives, translating analysis and diagnostics into meaningful operations.
6. As called for at Monterrey, we have continued our consideration of innovative and pragmatic ways to enhance the voice and effective participation of developing and transition countries in the work and decision making of the Bank and the Fund. There is no single approach

to accomplish this, but rather action is required over time across a range of issues. The development of the Poverty Reduction Strategy approach represents a step towards ensuring responsiveness by the Bretton Woods Institutions to country-owned strategies and priorities. In this context, we also welcome on-going efforts to promote greater openness and transparency, decentralization and staff diversity in all its dimensions. We urge the Bank and the Fund to step up these efforts.

7. We welcomed the further progress by Directors on measures to enhance capacity in developing and transition country Executive Directors' offices and in capitals. We also welcomed the proposed Analytical Trust Fund for use by Executive Directors representing sub-Saharan African developing countries in undertaking independent research and analysis on development issues. We called for further work on additional capacity-enhancing measures, including secondments. We look forward to concrete action by our Spring meeting.
8. The IDA-13 Mid Term Review and IDA-14 negotiations provide a timely opportunity to enhance borrower participation in the IDA replenishment process and its Board's decision-making. We noted that by taking up their full IDA subscriptions, developing countries could significantly increase their aggregate voting share and we encouraged these countries to take the necessary actions in this regard. We urged further consideration and progress on all these issues.
9. We note that the complexities involved in changing the voting structure and composition of the Boards will require time and effort to arrive at the necessary political consensus. However, we recognize the need to continue our efforts on these issues. We asked the Boards of Executive Directors to report back to us on all aspects of the voice issue at the 2004 Annual Meeting. A roadmap on procedures and next steps will be considered at our Spring meeting.
10. We reviewed the status of the HIPC Initiative and reconfirmed our commitment to its objectives, full financing, and implementation. We also recalled that within existing guidelines, additional relief can be provided at the completion point, on a case-by-case basis, and noted on-going discussions about the topping-up methodology and requested further work on this issue. Some HIPCs face a continued challenge to reach the decision point and we encouraged ongoing efforts by staff in this area, including application of the approach contained in the World Bank Task Force Report on Low-Income Countries under Stress. We recalled the importance of full creditor participation and again urged all official and commercial creditors that have not yet done so to participate in the HIPC initiative and welcomed the recent decisions by some non-Paris Club creditors (India and Libya). We look forward to a report being prepared by the staff of the Bank and Fund on a forward-looking framework for debt sustainability in low-income countries and to reviewing the report at our next meeting. We also encouraged further work by the Bank and the Fund on ways to help reduce the vulnerability of these countries to exogenous shocks, including commodity market and weather-related shocks.

11. We are encouraged by the continuing progress under the PRSP approach. We welcome the increasing openness of policy dialogue with all stakeholders, improved focus on sources of growth and the investment climate, and on policies needed to reduce poverty and achieve the MDGs, greater realism and better prioritization, increased pro-poor public spending, and efforts to strengthen public expenditure management and better integrate expenditure proposals into national budgets. At the same time, we recognized that PRSPs are charged with multiple and sometimes competing objectives and the challenge now is to achieve successful implementation, including through much more effective donor alignment and harmonization around national strategies. We also asked the Bank and the Fund to respond to requests for assistance from countries undertaking Poverty and Social Impact Analyses (PSIA) and developing alternative scenarios to meet the MDGs, where appropriate.
12. We stressed the need for accelerating progress and results on service delivery MDGs, including through the Education for All Fast Track Initiative (FTI). We asked the Bank to report on progress on funding and lessons from the implementation of the FTI at our next meeting.
13. We supported the Bank Group's renewed focus on infrastructure, in light of the important contribution infrastructure makes to sustainable economic growth and reaching the MDGs by improving the investment climate and supporting the development requirements of low and middle-income countries. We welcomed the report on the infrastructure action plan, as well as the follow-up to the recommendations of the World Panel on Financing Water Infrastructure, and asked the Bank Group to work with member countries to secure its early implementation within their development strategies. In particular, we noted the importance of scaling-up investments within a comprehensive development approach, and the catalytic role international financial institutions can play in this regard. We stressed that the right policy environment, institutional and maintenance capacity are crucial for ensuring sustainable infrastructure investments. We are pleased the Bank Group has intensified efforts to build on its international comparative advantage, expertise, and established policies, by investing in infrastructure projects, supported by country diagnostic work. We also urged the Bank Group to engage in cross-border investments, especially in light of the linkages to the trade agenda. We encouraged the Bank, IFC and MIGA to continue to work together on initiatives that facilitate and promote the use of joint instruments, and through work at the sub-sovereign level and via guarantees. Finally we noted that an implementation progress update would be provided to Bank Executive Directors before our next meeting, and we will return to this issue at a future meeting.

14. Progress in all areas we discussed and others is critical to achieving the MDGs and related development outcomes. We, therefore, welcomed the implementation report for the global monitoring of policies and actions for achieving the MDGs, which will allow the Committee to maintain a strategic overview on progress on key issues and priorities in the policy agenda and to reinforce accountabilities. We look forward to the first full report at our next meeting.
15. Finally, we noted the current difficulties in the region in which we met. We welcomed the active role of the World Bank in helping meet the urgent economic and social needs of the Palestinian people of the West Bank and Gaza. We also welcomed its role in promoting economic and infrastructure cooperation in the region. We noted the constructive role played by the Bretton Woods institutions, in cooperation with other international organizations, in positioning themselves to work closely with the people of Iraq in the task of reconstruction and development towards a future that will enable them to achieve their economic potential under their own leadership. We look forward to the forthcoming donors' conference on Iraq, which will play a critical role in mobilizing resources adequate to placing Iraq on the path of economic recovery. Success in both the West Bank and Gaza and in Iraq, while challenging, is nonetheless essential to stability and development in the region and beyond.
16. We wish to thank the authorities and people of the United Arab Emirates for their excellent hospitality and facilities.
17. We welcome confirmation of Mr. Trevor Manuel, Minister of Finance of South Africa, for an additional term as Chairman.
18. The next meeting of the Committee will be held in Washington, D.C. on April 25, 2004.